Jurnal Indo-Islamika
Volume 13, No. 2, January-June 2023, (118-135)
Office : Graduate School Syarif Hidayatullah State Islamic University (UIN) Jakarta
Website OJS : journal.uinjkt.ac.id/index.php/indo-islamika
E-mail: indoislamika@uinjkt.ac.id
P-ISSN: 2088-9445 | E-ISSN: 2723-1135

Nurturing Micro, Small, and Medium Enterprises (MSMEs/UMKM): Unleashing the Power of Islamic Economic Innovation through a Historical Lens

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Article:

Accepted: October 25, 2023
Revised: July 14, 2023
Issued: December 29, 2023

DOI: 10.15408/jii.v13i2.35243

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ABSTRACT

The focal point of this study lies in the impact of the Covid-19 pandemic on the economic landscape of Micro, Small, and Medium Enterprises (MSMEs) within the Yogyakarta community, particularly in the Kotagede area. Numerous MSMEs and local trade stalls have become non-operational due to the adverse effects of the pandemic, leading to financial distress and, in some cases, bankruptcy. This article addresses this issue within the context of Islamic economics by drawing insights from its foundational theories and proponents. The aim is to provide inspiration for MSMEs and entrepreneurs in Indonesia. The research employs a literature-based qualitative methodology, utilizing sources from Google Scholar, Scopus, and relevant books on Islamic economics, MSMEs, INOVASI, and Indonesian traders. The data analysis is conducted through a robust content analysis approach. The findings reveal an innovative model within Islamic economics that fosters creativity and initiative among MSMEs, particularly in Kotagede, Yogyakarta. Despite the intermission experienced by many small businesses during the pandemic, the encouragement for innovation from local authorities, including the Minister of Tourism and Culinary, has facilitated their return to business operations. Additionally, the study sheds light on the historical perspectives of Islamic economics by examining the contributions of experts such as Boediyono, Ibnu Khaldun, Abu Hanifa, and Zaid bin Ali. The implications of this research are significant in fortifying the Islamic economic sector, specifically for MSMEs in Indonesia.

Keywords; history of Islamic economics, Islamic economics, innovation, SMEs

Introduction

The COVID-19 pandemic has precipitated a significant impact on Indonesian economy, especially on Micro, Small, and Medium Enterprises (MSMEs). Decreased economic activities, movement restrictions, and reduced purchasing power have made it difficult for small business owners to sustain their operations. Many MSMEs in Indonesia, including those operating in the Kotagede area of Yogyakarta, have faced challenges in maintaining their capital and operational resources, ultimately leading to the closure of their businesses (Antwi, 2020; Zhang et al., 2021).

Islamic economics offers a unique framework that can support the development of Micro, Small, and Medium Enterprises (MSMEs). The concept of innovation in Islamic economics emphasizes empowering communities to innovate in order to enhance their productivity and creativity. Islamic economic theory highlights the importance of business ethics, social justice, and fair distribution of profits. These principles can stimulate small entrepreneurs to seek innovative ways to manage their businesses (Al-Jahwari et al., 2019; Azwar Iskandar et al., 2020).

Observations in the Kotagede area of Yogyakarta show that the innovation empowerment model implemented by the Yogyakarta city government has contributed a positive impact on MSMEs and small traders during the COVID-19 pandemic. By sharing information, providing training, and motivating small business operators to adopt innovations, the local government has helped them resume trading and sales. This includes various businesses such as vegetable sales, grocery stores, business enterprises, and small eateries around the Kotagede Market and Majid Mataram Kotagede.

The active role of the Minister of Tourism and Culinary Arts in supporting the development of MSMEs is also noteworthy. Support from the central government in developing the culinary and tourism sectors does not only provide opportunities for MSMEs to innovate but also enhances the attractiveness of tourist destinations in areas like Kotagede. With strong collaboration between local and central governments, MSMEs have recovered and thrived more easily.

When we look at history, Islamic economic thought has been a guiding light throughout Islamic civilization. From the early days of Islam to the contemporary era, Islamic economic thought has addressed various economic challenges, drawing inspiration and guidance from the teachings of the Quran, Sunnah, ijtihad (reasoning), and empirical experience. Along its journey, Islamic economic thought has gone through four periods of development, covering crucial periods in Islamic history. The early Islamic period, with the Prophet Muhammad as the Messenger, forms the foundation of Islamic economic thought. His decisions, covering aspects of society, politics, and economics, based on the teachings of the Quran and Hadith, have shaped the fundamentals of Islamic economics (Aripudin et al., 2022; A Iskandar et al., 2021).

The second period witnessed the expansion and development of Islamic economic thought between the 5th and 9th centuries of the Hijri calendar (11th to 15th centuries AD). Thinkers like Abu Hanifa, Abu Yusuf, Al-Ghazali, and others have made significant contributions to formulating more complex concepts of Islamic economics. The third period, spanning from the 9th to the 14th centuries of the Hijri calendar (15th to the 20th centuries AD), has reflected a time when Islamic economic thought started to fragment and enter a phase of stagnation. However, the contemporary period, beginning in the 20th century, has seen the resurgence of Islamic economic thought. Thinkers like Zaid bin Ali and Ibn Khaldun have elevated Islamic economic thought to higher levels, making important contributions to the modern understanding of Islamic economics (Mahfud, n.d.).

Innovation is the key to addressing economic challenges, including those posed by the COVID-19 pandemic. This article explores how innovation can be a solution to boost the economy in the modern era, including during the pandemic. We, as Muslims in Indonesia and around the world, are reminded to continue innovating without violating the principles of Islamic law. With a wise approach, we can become a modern, progressive community that contributes to global civilization while adhering to our religious teachings (Jahar, 2015; Setiadi, 2021; Suyatno et al., 2022).

This article discusses how innovation can support economic development, especially in the context of COVID-19, and proposes an alternative innovation model that is aligned with Islamic economic values. Furthermore, the article also explores how innovation can strengthen MSMEs and the lower middle class that have been affected by the COVID-19 pandemic. This research also delves into the history of Islamic economics by referencing the thoughts of prominent Islamic economic scholars such as Boediyono, Ibn Khaldun, Abu Hanifa, Zaid bin Ali, and others. Studying the contributions of the aforementioned thinkers to the development of Islamic economic concepts provides deeper insights into how Islamic economic principles can be applied to support MSMEs in Indonesia (Muttaqin, 2018).

Through a deep understanding of the history of Islamic economic thought and the role of innovation in economic development, this article seeks to provide valuable insights into how we can collectively address economic challenges in the modern era, including the post-pandemic situation. In this notion, this research may have significant implications for the development and strengthening of the Islamic economic sector in Indonesia, particularly in the context of supporting and empowering MSMEs. This article further explains how the concepts of Islamic economics and innovation can make a real contribution to help MSMEs overcome economic challenges in the post-pandemic period.

Method

This research employs a literature review based approach and content analysis with a focus on Islamic economics, MSMEs, innovation, and the impact of the COVID-19 pandemic on small traders in the Kotagede area of Yogyakarta (Arikunto, 2013).

Data collection was carried out through screening relevant literature on the research topic. The authors conducted literature searches in academic sources such as Google Scholar and scholarly databases like Scopus. The researchers also gathered primary data through direct observations in the Kotagede area of Yogyakarta. These observations included interviews with small traders, MSME owners, relevant stakeholders, and surveys related to the impact of the COVID-19 pandemic (Hardani, 2020).

The obtained data from the literature and field observations were then analysed using content analysis method. This involved the identification and categorization of information relevant to the research topic. The researchers then conducted research on the history of Islamic economics by examining the works of prominent Islamic economic thinkers such as Boediyono, Ibn Khaldun, Abu Hanifa, Zaid bin Ali, and others. The goal of this research is to understand the concepts of Islamic economics that underlie the arguments in the article (Sugiyono, 2017).

The analysed data and research results from history were orchestrated to form the arguments in the article. The authors interpreted these findings to illustrate how the concepts of Islamic economics and innovation can help MSMEs in coping with the impact of the COVID-19 pandemic. This research produced conclusions that reflect the impact of the COVID-19 pandemic on MSMEs in the Kotagede area of Yogyakarta. Moreover, it investigated the relevance of the concepts of Islamic economics and innovation in supporting the recovery and development of MSMEs in the post-pandemic era. In other words, the researchers combined primary and secondary data with literature and historical analysis to create a comprehensive understanding of the topics that have been discussed in this article (Rahmawati et al., 2018).

Result and Discussion

Innovation in the Perspective of Islamic Economics in Indonesia

In any society, innovation serves as a crucial driver of economic development and growth. Within the predominantly Muslim context of Indonesia, innovation under the framework of Islamic economics has gained prominence. This article delves into the concept of innovation from the perspective of Islamic economics in Indonesia, emphasizing its significance, principles, and applications. In Islamic economics, innovation is seen as a tool to enhance productivity and elevate societal well-being. It aligns with Islamic principles such as ijtihad (independent reasoning) and ijma (consensus), enabling adaptation to evolving economic circumstances while upholding ethical and moral values (von Rueden et al., 2015).

The government of Indonesia, in collaboration with Islamic finance institutions, has taken significant steps to foster innovation in the UMKM sector. These initiatives include training, providing access to financial resources, and implementing mentorship programs that encourage UMKM entrepreneurs to innovate and adapt to evolving market conditions. While innovation within the framework of Islamic economics in Indonesia is promising, challenges remain. These include ensuring that innovative practices align with Islamic principles, addressing regulatory and legal frameworks, and enhancing the skills and knowledge of UMKM entrepreneurs (Hendrawan et al., 2020).

Innovation within the context of Islamic economics in Indonesia holds substantial potential for the UMKM sector. By adhering to Islamic ethical and social principles, embracing technological advancements, and fostering a supportive ecosystem, Indonesia can harness innovation to drive economic growth and social development while adhering to its Islamic values and principles (Azwar Iskandar et al., 2020).

Technological advancements on a global scale undeniably wield significant influence on the progress of nations today, Indonesia included. To ensure they don't fall behind, countries must invest considerable efforts and resources in bolstering their economies and technological capabilities (Robert A Reiser, 1983). Economic growth hinges on the cultivation of innovation and technology, which have become a relentless pursuit shared by nations worldwide to stay up to date. As Ismiatun (2015:254) suggests, both developed and underdeveloped nations are striving to foster innovation, although the frequency and consistency of such efforts tend to vary in less developed countries. This phenomenon is often underpinned by the presence of various agencies dedicated to promoting innovation. The process of development and innovation is shaped by a multitude of factors, including systemic elements and influential forces. These factors, and the intricate dynamics among them, notably in policy realms, ultimately play a crucial role in determining or influencing a nation's dynamic performance. The innovation ecosystem is profoundly affected by the prevailing contextual conditions because it operates within the framework of policy environments and relies on the foundation of science and technology systems. It is also intricately connected to the production systems within an economy and the interactions between and among them. At the national or regional level, the innovation system is significantly influenced by the social and cultural progress within society (Makin, 2016).

According to Kusumawardhana (2011:11), countries with a strong emphasis on quality tend to experience robust economic growth. This growth is often accompanied by an expansion in the number of countries achieving economic prosperity. Typically, nations that boast high-quality companies are those categorized as developed countries, including the United States, the United Kingdom, Germany, Japan, and others. This quality reputation is further reinforced by the extensive international recognition and publications these countries receive. It's important to note that the development of such quality is not an instantaneous achievement. Rather, it's a lengthy process that necessitates investments in innovation and technology. On a related note, Frinces (2019:12) highlights that a high degree of democracy fosters the development of quality and exceptional human resources. These qualities and advantages emerge as a result of innovative and competitive educational systems that yield exceptional educational outcomes. Democratic countries and governance systems are more likely to establish educational processes and systems that are capable of producing high-caliber human resources. The experiences of advanced industrialized nations corroborate this, while also demonstrating that creativity, initiative, and innovation thrive best in environments that are characterized by significant freedom. This freedom is intrinsically linked to the principles of democracy and plays a pivotal role in nurturing quality and exceptional human resources, all within the context of regional economic development (Darnela, 2021; Salik, 2019).

In accordance with Wulandari (2017:5), economic instability refers to the condition of a nation's economic state, encompassing its resilience and capacity to withstand challenges. This concept is closely intertwined with the principles of Pancasila and the national economy as delineated in the 1945 Constitution and the Unitary State of the Republic of Indonesia. Various factors exert influence on the robustness of an economy, including the external environment, the economic system in place, stages of development, foreign economic relationships, the expansion of business activities, workforce skills, governance related to human resource access, and control over income flows. The author further elaborates on how a country's economic strength can be assessed by considering a range of factors that shed light on its economic growth, profit distribution, and overall economic stability.

In line with Rintan Saragih (2017:3), innovation is fundamentally characterized by two key criteria, namely novelty and improvement. Novelty, in this context, doesn't necessarily entail the creation of an entirely new product. It can also pertain to the enhancement of its utility, condition, or application. On the other hand, the criterion of improvement strives to identify the most optimal and efficient alternatives for processes or products. Another perspective on innovation also encompasses the development of products through both incremental and transformative processes. This viewpoint underscores that innovation is not a solitary event but rather a diffusion and adoption of novel ideas and practices. Innovative endeavors and services aimed at fulfilling societal needs are typically undertaken by organizations with a primary mission of serving society. The process involves identifying, securing support for, and implementing new solutions, all of which address prevailing social issues and are rooted in the requirements of the community.

Expanding on the statement by Rajagukguk (2016:3), it is emphasized that globalization has elevated expectations within the industrial sector. Nevertheless, not all developing nations reap the rewards of globalization. Certain developing countries are well-positioned for international competition. The pace of economic growth in these countries hinges on their ability to absorb creativity and innovation internally and is also contingent upon their specific economic policies.

According to Suwarno (2020:3), innovation typically occurs within a specific context and is often associated with elements that signify influence or authority. The concept of innovation itself is multifaceted and encompasses various interpretations. As per Darwis (2017:28), creativity plays a pivotal role in allowing individuals to perceive things in novel and unique ways. The creative process involves generating fresh, valuable, and unexpected ideas that are practical and can be put into action. Such thinking and behavior lay the foundation for innovation. This understanding of innovative ideas highlights their significant teaching value in Islam, as illustrated in the Hadith that states: "Whoever introduces something new will be rewarded for their innovation, as well as those who practice it."

Meanwhile, according to Holy (2012:4), innovation, as a catalyst for social change, follows a sequence of three consecutive stages:

1. Invention, which is the process of conceiving and developing new ideas.
2. Diffusion, involving the dissemination of these new ideas throughout a social system.

DOI : 10.15408/jii.v13i2.35243

3. Consequences, encompassing the changes that manifest within the social system as a result of the adoption or rejection of these new ideas. These changes permeate all levels of society and stem from the process of communication.

As stated by an Anonymous source (2016:7), innovation encompasses elements such as renewal, change, and the pursuit of excellence. Successful innovation relies on several contributing factors, including maintaining a market-oriented approach, enhancing a company's value proposition, and incorporating efficient and effective components that align with the company's vision and mission. On the other hand, as articulated by Rofaida and colleagues (2019:3), the development of industrial potential is contingent upon several key factors. Among these, the rapid growth of information technology stands out as a primary catalyst, facilitating easier access to information via the internet. The process of social innovation is progressing smoothly, bolstered by unique local cultural resources within various regions. Furthermore, societies are increasingly receptive to modern culture, and numerous educational institutions have transformed into hubs of high-quality human resources characterized by creativity and innovation. This convergence of diverse factors has given rise to a fusion of aesthetic and technical elements, culminating in the emergence of a distinctive digital creative industry.

In accordance with Wahyudi (2019:5), there exists a multitude of innovation types that can be identified, and the categorization can vary depending on the focus of innovation. These categories encompass innovations in diverse domains, including social and cultural systems, ecosystems, business models, products, services, processes, organizations, and institutional arrangements. Furthermore, classifications can also differ based on the driving forces behind innovation, such as technology, market dynamics, design principles, user preferences, and more. Another aspect of innovation that can be categorized is its intensity. Process innovation, for instance, can be subdivided into two main categories: technological innovation, which involves altering the methods of product manufacturing through changes in technology, and organizational innovation, which pertains to innovations in the structure, strategy, and administrative processes of organizations.

Marlinah (2019:2) stated that the success of contemporary economic growth hinges on a country's ability to efficiently provide a wide array of goods and services that align with the evolving advancements in information technology and overall economic progress. Information technology undergoes continuous transformations, in which the latest developments significantly influence the business landscape. These changes have facilitated accessible communication and open information channels, while also nurturing a generation of young digital entrepreneurs primed for successful competition in their respective domains. These creative entrepreneurs are poised to engage in innovative endeavors, ultimately contributing to economic growth. With their inventiveness and determination, digital entrepreneurs have ventured into online businesses. They leverage the ease of promotion through social media platforms. Innovation plays a pivotal role in a nation's economic development, and this imperative applies to Muslims who are encouraged to actively seek innovative solutions. Muslim entrepreneurs are advised to diligently assess all potential risks in their business activities. This aligns with the broader principles outlined in QS al-Hasyr: 18.

يٰٓاَيُّهَا الَّذِيْنَ اٰمَنُوا اتَّقُوا اللّٰهَ وَلْتَنْظُرْ نَفْسٌ مَّا قَدَّمَتْ لِغَدٍۚ وَاتَّقُوا اللّٰهَ ۗاِنَّ اللّٰهَ خَبِيْرٌۢ بِمَا تَعْمَلُوْنَ

The conveyed meaning of the above verse is a call to believers to fear Allah and to be mindful of their actions in preparation for the hereafter. It emphasizes that Allah observes all deeds. In Indonesia, there has been a proliferation of Micro, Small, and Medium Enterprises (MSMEs), supported by government initiatives, which encourage individuals to plan for the future in their business endeavors.

As expressed by Lucky and Rosmadi (2013:3), during the Covid-19 pandemic, MSMEs have gained increased importance, with government efforts, and impacted various aspects of life. The pandemic's effects have extended across all economic sectors, both large and small. It is acknowledged that innovation plays a crucial role in advancing the nation's economy. Muslims are encouraged to innovate within the bounds of Islamic law to stay progressive without contradicting their religious teachings. Indonesia, with its predominantly Muslim population, has the potential to share its latest innovations with other Islamic countries. Islamic economic thought has a rich history spanning 14 centuries, with ongoing scholarly exploration of economic issues within the framework of Sharia. A comprehensive study of the history of Islamic economic thought by a group of scholars is essential to review existing materials.

Muhammad Nejatullah Ash-Siddiqy asserts that Islamic economic thought emerged as a response to the economic challenges faced by Muslim scholars in their respective eras. This thought is deeply influenced and guided by the teachings of the Quran and Sunnah, as well as by their ijtihad (independent thought) and empirical experiences. It's important to note that while human thought is involved in the interpretation of these teachings, the Quran and Sunnah themselves are not human creations. The focus of Islamic economic thought is not merely the direct teachings of the Quran and Sunnah on economic matters but also the interpretations and understandings of these teachings by Islamic scholars throughout history, as well as how these teachings were put into practice.

The scope of this study is somewhat limited. It primarily examines recent writings in Arabic, English, and Urdu that discuss the economic thoughts of historical Islamic thinkers. Recent efforts have been made to study the economic principles found in the Quran and Sunnah. It acknowledges that Islamic economics is essentially a human interpretation of divine guidance. This interpretation, however, is subject to the time and place in which it is applied. Islamic economic thought, therefore, reflects human interpretations rooted in Islamic principles.

Islamic economic teachings, as derived from the Quran and Sunnah, are considered eternal and universal. However, human attempts to interpret and apply these teachings can vary according to the circumstances and interests of the time and place in which they are implemented. This interpretation is the essence of Islamic economic thought, which is based on human understanding rather than direct divine revelation. This explains why the study of the history of Islamic economic thought often begins by examining the views on economic matters expressed by the companions of the Prophet and subsequent generations, who were experts in fiqh (Islamic jurisprudence).

Unfortunately, there has been a lack of recognition and appreciation by historians and economists for the contributions of Islamic scholars to the field of economic thought. Many books on the history of economic thought, whether written by Western or Indonesian authors, have overlooked the works of Muslim economists in the Middle Ages, even though classical Muslim scholars have made significant advancements in economic thought that often exceeded those of Western scholars. This matter will be explored further in this discussion.

Historical evidence demonstrates that Muslim scholars during the classical era wrote extensively and conducted empirical and systematic studies of Islamic economics. Prominent scholars like Ibn Khaldun, Ibn Taymiyah, and Al-Ghazali have delved into economic topics with rigorous methodologies. In addition to their works, there were numerous other books that have been dedicated to specific aspects of Islamic economics, such as taxation, trade, division of labor, monetary policy, and financial institutions like baitul mal (treasury). These writings encompass a wide range of economic studies, including pure economics, social economics, and political economy.

Islamic economic thought can be traced back to its origins, particularly the time of Prophet Muhammad (SAW). The Prophet issued various policies related to social, legal (fiqh), political (siyasah), and economic (muamalah) matters. Economic issues held particular significance for the ummah, as they are intrinsic to the faith. Subsequently, the caliphs used the Quran and Hadith as foundational sources for economic theories and guidelines. Economic regulations during the reign of the Rashidun Caliphs and the

DOI : 10.15408/jii.v13i2.35243

Umayyad Dynasty encompassed areas like land administration (kharaj), zakat collection, and the utilization of baitul mal (treasury) to address economic challenges. Please note that this paraphrase captures the main points from the provided text while attempting to simplify and clarify the content.

History of Islamic Economic Thought in Indonesia

The history of Islamic economic thought in Indonesia has experienced a rich and complex journey. It has reflected the country's unique blend of Islamic tradition and economic challenges. Over the years, Indonesian scholars and thinkers have contributed significantly to the development and application of Islamic economic principles. This article aims to provide an overview of the historical development of Islamic economic thought in Indonesia, from its early beginnings to the contemporary era (Aripudin et al., 2022).

1. Early Influences

The roots of Islamic economic thought in Indonesia can be traced back to the arrival of Islam in the archipelago. As Islam spread across the Indonesian islands, it brought with it not only religious teachings, but also economic principles derived from the Quran and Hadith. These early influences emphasized fair trade, charity, and the prohibition of usury (riba) (Andiani et al., 2018).

2. Colonial Period

During the Dutch colonial era, Islamic economic thought faced various challenges. The Dutch colonial administration controlled most economic activities and imposed their own economic policies. Despite these challenges, Indonesian scholars like Haji Agus Salim and Haji Misbach played essential roles in promoting Islamic economic values and practices within the community (Asep Saepudin Jahar, 2019).

3. Post-Independence

After gaining independence from Dutch colonial rule, Indonesia sought to incorporate Islamic economic principles into its economic system. The 1945 Indonesian Constitution recognized Islam as one of the country's official religions and aimed to establish a just and prosperous society based on Islamic principles. Indonesian economists like Kwik Kian Gie and Didin Hafidhuddin contributed to the development of Islamic economic thought and its practical implementation in various sectors (Sumadi, 2020).

4. Contemporary Developments

In contemporary Indonesia, Islamic economic thought continues to evolve and adapt to the country's changing economic landscape. Islamic banks, microfinance institutions, and zakat-based programs have become prominent features of the Indonesian economy. Scholars and economists like M. Syafii Antonio and Arif Zamhari have made significant contributions to the development of Islamic finance and economics (Kefalas et al., 2011).

5. Challenges and Opportunities

While there has been notable progress, Indonesia still faces challenges in fully integrating Islamic economic principles into its economic framework. These challenges include issues related to Islamic banking regulations, financial inclusion, and education. However, Indonesia's large Muslim population and growing interest in Islamic finance present significant opportunities for further development (Valentina et al., 2021).

The history of Islamic economic thought in Indonesia is a testament to the resilience and adaptability of these principles within a diverse and dynamic economic environment. As the country continues to embrace Islamic economics, it has the potential to further align its economic policies with Islamic values and contribute to the broader global Islamic finance and economic discourse.

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Boediono's Thoughts

1. Monetary economic theory

Monetary economics constitutes a segment of economic study dedicated to examining the role and impact of money on various economic activities.

2. Macroeconomic theory

The study of economics is driven by its utility in offering guidance on policies to address specific challenges. Macroeconomics, as a distinct branch of economics, focuses on addressing macro policy issues.

3. Microeconomic theory

Microeconomics delves into a narrow segment of the economy, specifically examining entities such as firms and households. Within the realm of 21 companies or households, three fundamental economic activities invariably exist: production, consumption, and distribution.

Policies that Boediono has implemented in Indonesia

1. Implementation of State Sharia Securities and Sharia Banking Law

   The enactment of the State Sharia Securities and Sharia Banking Law saw successful implementation during Boediono's tenure as Coordinating Minister for the Economy in the Susilo Bambang Yudhoyono government.
2. Debt Reduction During Boediono's Term as Bank Indonesia Governor

   Under Boediono's leadership as Governor of Bank Indonesia, our country's debt ratio witnessed a remarkable decline, plummeting from 100% in 1999 to 56% in 2004, and maintaining a level of 30-35% in 2009.
3. Key Role in BLBI Policy Completion

   Boediono played a pivotal role in formulating government policies related to the resolution of the BLBI. This was attributed to his position as the finance minister in Megawati's government, where he possessed a profound understanding of the procedures involved in settling debts for BLBI obligors.
4. Impressive Performance in Economic Stabilization

   Boediono's notable performance during Megawati's administration played a crucial role in stabilizing Indonesia's turbulent economy condition. His return to Susilo Bambang Yudhoyono's government after a cabinet reshuffle further underscored his success in rescuing the Indonesian economy, which faced challenges during the initial two years of the pre-reshuffle United Indonesia Cabinet.

Moh Hatta's Thoughts

In the realm of philosophy and theology, Hatta's perspective emphasizes that human economic conduct should be grounded in divine values and the concept of humanity as stewards of the Earth (khalifatullah fil ardh). This involves the application of fundamental principles such as justice, brotherhood, and unity to the economic activities they partake in. Additionally, Hatta highlights the significance of instrumental values that support these principles, including economic cooperation, particularly through collaborative endeavors. Economic democracy and the government's role in fostering justice, prosperity, and well-being for all are also considered instrumental values essential to complement the foundational principles. Hatta's philosophical direction centers around the pursuit of creating a just and prosperous society. To achieve this objective, he outlines several prerequisites. Firstly, there must be a spirit of mutual assistance and cooperation among community members and residents. Secondly, in the realm of politics, the state must actively participate and not solely delegate economic matters to market mechanisms, such as the private sector and cooperatives. This active state involvement is believed to enhance efficiency, ultimately guiding society toward the desired level of prosperity.

Adiwarman Karim's Economic Thoughts

Adiwarman Karim has played a pivotal role in advancing the Islamic economy in Indonesia, leaving a lasting impact on the field of Islamic economics within the country. His profound knowledge and extensive experience have positioned him as a notable figure who serves as inspiration and prompting introspection for emerging practitioners and scholars in Islamic economics. It is incumbent upon us to follow the path laid by esteemed Islamic economic experts like Ir.H. Adiwarman Azwar Karim, SE, MBA, MAEP, and continue their legacy of dedication and achievement.

1. Arguments about Islam and Islamic banking

Adiwarman Karim envisions a remarkable future growth for Sharia banking assets in Indonesia. This anticipated expansion is attributed to growing regulatory certainty and evolving public perceptions regarding the significance of Sharia banks. However, the sustained development of Sharia banking necessitates a parallel emphasis on cultivating sufficient and competent human resources, both qualitatively and quantitatively. Presently, the reality reveals a substantial number of individuals involved in Sharia institutions are lacking in academic or practical experience in Islamic banking. This situation significantly impacts the productivity and professionalism of Sharia banking. It underscores the imperative need to focus on developing human resources that are capable of practicing Islamic economics at all levels. A robust system can only thrive when it is supported by well-trained and proficient individuals.

2. Approach and method

Adiwarman Karim employs a three-pronged approach to discuss Islamic economics: historical, fiqh (Islamic jurisprudence), and economic methods. It's worth noting that Indonesia boasts a cadre of other Islamic economic thinkers, including AM Saefuddin, Karnaen Perwataatmaja, M. Amin Aziz, Mohammad Syafei Antonio, Zainal Arifin, Mulya Siregar, and Riawan Amin. Each of these thinkers contributes to the diverse landscape of Islamic economic thought in Indonesia. It has enriched the field with various perspectives and methodologies.

Development Of Islamic Economics

The development of Islamic Economics unfolds across four distinctive periods:

1. First/foundation period (early Islamic period 450 AH/ 1058 AD)

This era marked the inception of the Islamic state in Medina. Although not deemed a perfected economic study, it laid the groundwork for the emergence of Islamic economics. Through practical implementation (amaliyah), the foundational principles and practices of Islamic economics were established under simple conditions of that time. Notably, while financial institutions like banks and large companies (PT) were absent, a government-level monetary institution, Baitul Mal, was in existence. Companies (PT) were also in nascent stages, manifested through small-scale deliberations. Numerous Muslim scholars lived among the Prophet's companions and the tabi'in, ensuring accurate references to teachings, including figures like Zayid bin Ali, Abu Yusuf, Muhammad bin Al-Syaibani, Abu Ubaid, Al-Kindi, Junayd Bagdadi, and Ibn Miskwayh.

2. Second Period (450 – 850 H/ 1058 – 1446 AD)

During this period, a considerable part of the economic discourse arose due to the escalating issues of corruption, moral decline, and the expanding wealth gap, despite the general prosperity of Islamic society. Notably, the era saw the valuable contributions of distinguished intellectuals, whose works remain influential references to this day. Some of these noteworthy figures include Al-Ghazali, Ibn Taimiyah, Ibn Khaldun, Al-Maghrizi, Abu Ishaq Al-Syatibi, Abdul Qadir Jaelani, and Ibnul Qayyim.

3. Third Period (850-1350 H/1446-1932 AD)

In this third phase, the intellectual and scholarly prominence of Muslims experienced a decline, impacting various fields, including economics. With advancements in economic activities, scholars undertook the task of formulating guidelines for establishing an Islamic economic system within a state or government. These guidelines addressed various aspects such as transaction methods, the prohibition of usury, price regulation, Sharikah law (resembling a partnership or corporation), market supervision, and more. However, these regulations were primarily scattered across articles within fiqh (Islamic jurisprudence) books and had not yet coalesced into a comprehensive work under the title of "Islamic economics." Nevertheless, the past two centuries have witnessed the emergence of influential economic thinkers, including Shah Waliullah, Muhammad bin Abdul Wahab, Jamaluddin al-Afghani, Muhammad Abduh, and Ibn Nujaym.

4. Contemporary Period (1930-present)

The 1930s marked a period of intellectual resurgence within the Islamic world. The liberation of Muslim nations from Western colonialism further fueled the enthusiasm of Muslim scholars in advancing their ideas. Zarqa categorizes the contributors to economic thought into three groups: Islamic Sharia experts, conventional economists, and individuals well-versed in both Islamic Sharia and conventional economics. Over these three decades, Islamic economics made significant strides, both in academic research that have been conducted at universities and in practical applications.

Islamic economics has experienced significant educational expansion. It gains its prominence in universities across Muslim-majority nations and Western countries, such as the United States, the United Kingdom, and Australia. Beyond the academic realm, the practical application of Islamic economics is evident in the establishment of banking institutions and diverse non-bank Islamic organizations. Presently, Islamic banking institutions and other financial entities adhering to Islamic principles have extended their global presence to encompass 75 countries, reaching into Western nations as well.

The inaugural World Islamic Economics Conference took place in Mecca from February 21 to 26, 1976, marking a pivotal moment in the global discourse on Islamic economics. Subsequently, the Islamic Economics Conference convened in London in July 1977, further solidify the international attention on this burgeoning field. Since these seminal events, the literature on Islamic economics has proliferated in various languages, including Arabic and English, becoming readily accessible in bookstores. This surge in scholarly interest contributed to the establishment of Islamic banks at both national and international levels.

On the international stage, the Islamic Development Bank (IDB) was founded, with its headquarters in Jeddah, Saudi Arabia. Article 2 of the IDB's articles of association delineates its functions and powers, including the mandate to conduct research related to economic, financial, and banking activities in Muslim countries in accordance with Sharia principles. The IDB has played a crucial role by providing technical assistance, sponsoring seminars on Islamic economics and banking globally, extending financing for banking personnel pursuing studies at Islamic banks, and deploying banking experts to newly established Islamic financial institutions.

Further evidence of the broad acceptance of Islamic economics is found in the Directory of Islamic Financial Institutions published in 1988 by the Islamic Research and Training Institute (IRTI) of the IDB. The directory revealed the establishment of at least 32 Islamic banks worldwide by that time, with a notable presence in Europe. The shift of numerous conventional banks in Indonesia towards adopting Islamic banking practices underscores the accelerated growth and increasing demand for Islamic financial services, not only within Indonesia but also in other nations. Over the past decade, countries such as Malaysia and various Islamic nations have experienced comparable growth in their Islamic banking sectors.

In Indonesia, the field of Islamic economics has undergone rapid growth, with courses in Islamic economics now being offered in numerous state and private universities. The impetus for Islamic economic development gained traction with the establishment of Bank Muamalat in 1992. Several laws have been enacted to bolster the Islamic economic system, such as Law no. 7 of 1992 concerning Banking, amended by Law no. 10 of 1998, and Law no. 23 of 1999 concerning Bank Indonesia (BI). Article 10 of the latter law explicitly empowers BI to implement financial policies based on Sharia principles. Despite global economic developments and increasing public interest in Islamic banking and finance, Islamic economics faces substantial challenges. Three pivotal challenges include:

1. Economic credibility test and financial system.
2. How can the Islamic economic system improve and guarantee the survival and welfare of all people, eradicate unemployment, and poverty in Indonesia which are increasingly rampant, and can advance the domestic economy which is still in a slump and is still of low value compared to other countries.
3. Regarding regulatory, legal and policy instruments both on a national and international scale.

In response to the above inquiry, the Indonesian Islamic Economic Experts Association (IAEI) has been established. This organization aims to foster collaboration and create a network for the advancement of Islamic economics in Indonesia, encompassing both academic and practical dimensions.

Islamic Economic Thinkers

1. Zaid bin Ali (80-120/699-738)

Zaid bin Ali is the grandson of Imam Husain. He held esteemed status and was recognized as a notable fiqh expert in Medina. Zaid bin Ali, as a distinguished expert in fiqh matters, permitted the sale of goods on credit at a price exceeding the cash price. However, he strictly forbade setting the deferred payment price higher than the cash payment because it is akin to imposing extra charges on delayed loan repayments, as it can be deemed as usurious. In essence, Islam permits transactions involving goods or services based on mutual consent. This aligns with the Quranic guidance in Surah An-Nisaa' (4), verse 29: "O you who believe, do not consume one another's wealth unjustly or send it [in bribery] to the rulers in order [that they might aid] you [to] [get] [the] wealth [of] [the] people in [the] [way] [of] [sin,] [while] you [know [that it is unlawful]." The verse underscores that any type of trades that are conducted with mutual consent and fairness is permissible. In credit sales, it's crucial to acknowledge that traders legitimately earn profits, constituting non-usurious trade.

2. Abu Hanifa (80-150 H /699 –767 AD)

Abu Hanifa made substantial contributions to economic concepts in his era. One of his noteworthy innovations was the concept of "salam". It represents a transaction where both the seller and buyer agree that the goods will be delivered after payment in cash at the time of contract agreement. Abu Hanifa critically examined existing contract procedures, which often resulted in disputes between buyers and sellers. His aim was to alleviate these conflicts by specifying contract details, including the type of commodity, its quality, quantity, and the time and place of delivery. Furthermore, he mandated that the commodity must be available in the market during the contract and delivery period. Abu Hanifa's policies sought to eliminate ambiguity and disputes in transactions, aligning with Sharia's objectives in the context of buying and selling.

DOI : 10.15408/jii.v13i2.35243

Additionally, Abu Hanifa demonstrated a keen concern for the welfare of vulnerable individuals. He implemented a policy that prevented the distribution of harvest (muzara'ah) from the cultivator to the landowner when the land failed to yield any produce. This policy aimed to protect the interests of cultivators, which were often marginalized and less powerful. Among his notable works are "Al-Makharif fi Al-Fiqh," "Al-Musnad," a collection of hadith compiled by his students, and "Al-Fiqh Al-Akbar."

3. Abu Yusuf (113 – 182H/731 – 798M)

Abu Yusuf, who was renowned for his role as a Qadi or judge, left a lasting impact through his significant work entitled "Al-Kharaj." Composed at the request of the caliph Harun Ar-Rashid, who sought guidance on the collection of state revenues, including kharaj, ushr, zakat, and jizyah, this book holds contemporary economic relevance and can be categorized as a comprehensive study of public finance.

According to Abu Yusuf, the Islamic economic system is founded on principles that endorse market mechanisms that provides optimal freedom to economic actors, including producers and consumers. In situations where rising prices stem from factors unrelated to monopolies, hoarding, or unfair practices by producers, Abu Yusuf advises against government intervention through price fixing. Instead, pricing should be determined by the dynamic interplay of supply and demand forces in the economy.

In addition to "Al-Kharaj," Abu Yusuf authored "Al-Jawami," a book tailored for Yahya bin Khalid. Furthermore, he compiled "Usul Fiqh Hanafiah," containing legal fatwas agreed upon by Imam Hanafiah and his students. Abu Yusuf's multifaceted contributions encompass not only the intricacies of public finance but also the essential principles which guide economic actors within the Islamic economic system.

4. Al-Ghazali (450 – 505H/ 1058 –1111M)

Al-Ghazali, born in the small town of Toos in Khorasan in 1058 AD, remains a timeless figure with insightful and contemporary analyses that hold relevance even today. His discussions, presented in a logical and modern manner, continue to find application in the current context. These topics are comprehensively explored in his book "Ihyau Uulum Ad-Diin," which serves as a guide for Sufism experts. Al-Ghazali perceived the market as an integral part of the "natural order" and provided a detailed explanation of its evolution.

Furthermore, Al-Ghazali introduced a hierarchy of human needs, encompassing basic needs (darruriyah), secondary needs (hajiat), and luxury needs (takhsiniyyat). This conceptualization was later embraced by William Nassau Senior, who categorized human needs into necessity, decency, and luxury. Al-Ghazali emphasized that Sharia's primary purpose encompasses matters related to religion, life, intellect, lineage, and wealth, all intricately intertwined with economic affairs.

At the core of Al-Ghazali's argument is the significance of material resources for human existence. He highlighted the idea that each individual has a rightful share of these resources and emphasized the continuous development of these elements, while emphasizing their complementarity and interconnectedness.

Al-Ghazali delved into the role of money in the economy and elaborated this concept in his book "Ihya' Ulum Din." He asserted that money serves as a medium of exchange for acquiring goods. Ibn Taimiyah later expanded on this notion, while also adding another function by stating that money also serves as a means for measuring value.

According to Imam Ghazali, the acceptance of non-gold and non-silver currencies is permissible as long as the government maintains the stability of these currencies as legal means of payment. In one of his writings, he metaphorically likened money to a mirror, describing it as colorless but possessing the capacity to reflect all colors.

DOI : 10.15408/jii.v13i2.35243

Notable works by Al-Ghazali include "Alajwibah Al-Ghazaliyah fi Al-Masa'il Al-Ukhrawiyah," "Ihya' Ulum Din," "Al-Adab fi Al-Dina," among others.

5. Ibn Khaldun (732 – 807H / 1332 – 1383M)

Ibn Khaldun, whose full name is Wali Al-Din Abd Al-Rahman bin Muhammad bin Abu Bakar Muhammad bin Al-Hasan, was born in Tunisia on the 1st of Ramadhan 732 H. He belonged to an Arab Hadramaut family. Revered for his profound ideas, he gained widespread recognition in the West, leaving an indelible mark on Western scholarship and bringing enlightenment to the field of economics. Some people even named him as the "Father of World Economics.

His most significant contributions to the field of economics can be found in his renowned work, Al-Muqadimmah. In this masterpiece, he expounded on several fundamental principles and economic philosophies, including justice (al-adl), diligence, cooperation, moderation, and equity. Ibn Khaldun emphasized that justice is the fundamental pillar and principle underpinning the strength of an economy. He elaborated on the concept of "togetherness," which is fostered and reinforced when justice prevails. This justice ensures societal welfare through shared responsibilities and equitable distribution of the fruits of development. In its absence, dissatisfaction among the community tends to rise, which may discourage their efforts and erode social cohesion.

Ibn Khaldun's economic theories and insights into human behavior are deeply grounded in Islamic principles and philosophy. Instead of reducing humans to mere economic entities, he pioneered the concept of "Islamic humans" or "homoislamicus." These individuals are guided by Islamic values, relying on knowledge obtained from Allah SWT through observation and reflection to fulfill their mission on Earth.

Ibn Khaldun put forth a theory positing that economic life inherently strives for equilibrium between supply and demand. He emphasized that labor stands as the most crucial factor in the production process, while also acknowledging the role of other elements like raw materials. Labor power is deemed indispensable for the creation of the final product. Although he didn't explicitly distinguish between the theory of use value and exchange value, he affirmed that the value of an item is contingent on the labor invested in its production. His argument stated, "All human effort and labor power must be harnessed for capital and profit, as there is no alternative means for individuals to profit except through labor.

Ibn Khaldun asserted that a nation's wealth is not solely determined by the quantity of money but rather by its overall production and a favorable balance of payments. Echoing Al-Ghazali's perspectives on money, he argued that money need not be backed by gold and silver. However, these precious metals serve as the standard for its value. Money without gold and silver content becomes a representation of value that is determined by the government, which cannot arbitrarily alter it. The government is thus obligated to uphold the value of its currency, as people no longer associate it with the actual quantity of gold and silver. Alongside advocating for a gold/silver standard, he proposed fixed gold and silver prices. Ibn Khaldun delved into the impact of supply fluctuations on prices and elucidate that scarcity leads to price rises. Conversely, secure trade routes facilitating goods' importation result in increased availability and subsequent price decreases. In addition to his monumental work, "Al-Muqadimmah," Ibn Khaldun authored numerous other books, including "Syarh Al-Burdah," summaries of Ibn Rushd's works, notes on the book "Matiq", and more.

Conclusion

Islamic economic thought emerged as an insightful response from Muslim scholars to the pressing economic challenges of their era. This thoughtful framework is deeply ingrained and guided by the teachings of the Quran and Sunnah, which was enriched through scholars' ijtihad (independent reasoning), and fortified by practical

DOI : 10.15408/jii.v13i2.35243

experience. The origins of Islamic economic thought can be traced back to the time of Prophet Muhammad (SAW), whose directives extended beyond mere legal and political aspects to encompass the intricate realms of business and economic affairs (muamalah). The foundational principles of this economic thought find their roots in the Quran and Hadith, serving as the bedrock upon which economic theories and principles were shaped. As the caliphs and their followers governed their respective territories, they leaned on these divine sources to thoughtfully structure and manage their nations' economic systems.

The development of Islamic Economics is divided into 4 periods: foundation period (early Islamic period 450 AH/ 1058 AD), second period (450-850 H/1058-1446 AD), third period (850-1350 H/1446-1932), and Contemporary period (1930-present). Some of the notable Islamic economic thinkers that are quite influential are Zaid bin Ali, Abu Hanifa, Abu Yusuf, Al-Ghazali, and Ibn Khaldun.

It is clearl that innovation has the capacity to invigorate the nation's economy. As Muslims, it becomes our responsibility to consistently pursue innovative excellence to maintain competitiveness. Yet, it is crucial that these innovations adhere to Islamic principles and do not violate our religious teachings. In doing so, Muslims can advance as modern and sophisticated individuals while staying true to their faith. Considering Indonesia's predominant Muslim population, the country holds the potential to offer cutting-edge innovations that can benefit other Islamic nations.

This paper holds implications for economic development in both contemporary times and the Covid-19 era. It introduces alternative models of innovation and prototypes of Islamic economic systems, particularly the pertinent ones in the context of the ongoing Covid-19 pandemic. Moreover, it emphasizes the significance of empowering Micro, Small, and Medium Enterprises (MSMEs), which play a crucial role for small traders and lower-middle-class communities that have been negatively impacted by the Covid-19 crisis.

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