

The Effect of Community Participation, Government Policy, and Sharia Financial Education on Sharia Economic Development in West Java

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ABSTRACT

This study investigates the effect of community participation, government policy, and Islamic financial education on the development of Sharia economics in West Java. Utilizing a quantitative approach, data were collected from 160 respondents using a Likert scale ranging from 1 to 5. The data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS 3). The findings indicate that all three hypotheses are positive and significant. Community participation, government policy, and Islamic financial education each have a substantial impact on fostering the growth of Sharia economics in the region. Specifically, Islamic financial education demonstrated the most substantial effect, followed by government policy and community participation. These results underscore the critical roles of community engagement, supportive governmental frameworks, and educational initiatives in advancing the Islamic economic system in West Java. The study provides valuable insights for policymakers, educators, and community leaders aiming to enhance the development of Sharia economics through targeted strategies and programs.

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1. INTRODUCTION

Islamic economics, deeply rooted in Sharia law, has garnered increasing interest in regions with significant Muslim populations like West Java. The development of Islamic economics is characterized by efforts to establish an economic system that prioritizes social justice, economic stability, and fair wealth distribution [1]–[4]. This system, evolving over time, draws from historical practices such as zakat, kharaj, jizyah, and

price control, as seen during the era of Uthman bin Affan, to shape contemporary economic principles [2]. Islamic economics emphasizes social responsibility, equitable wealth distribution, and environmental sustainability, contributing positively to the formation of a just economic framework [4]. Furthermore, Islamic economics plays a crucial role in promoting economic empowerment, especially through supporting micro, small, and medium

enterprises (MSMEs), in regional economic development efforts [5].

Community participation is indeed crucial for the advancement of Islamic economics, as evidenced by various studies. Engaging the community in economic activities, decision-making processes, and the implementation of Sharia-compliant financial practices can significantly contribute to the development of the Islamic economic system [6], [7]. By involving individuals actively, a sense of ownership and responsibility is fostered, motivating them to positively impact economic growth and sustainability [8]. Through initiatives like community service activities focusing on Sharia economic literacy and sustainable tourism development with community participation, the Islamic economic system can benefit from increased awareness, knowledge, and active involvement of the community, ultimately leading to a more robust and sustainable economic framework [6], [7].

Government policies play a crucial role in shaping the development of Islamic economics, particularly in West Java. Supportive policies and regulatory frameworks, as highlighted in various research papers [1], [2], [9], [10], can create an enabling environment for Islamic economic activities. These policies may encompass incentives for Islamic financial institutions, regulations ensuring adherence to Sharia principles, and initiatives aimed at enhancing public awareness and understanding of Islamic economics. Effective government interventions, such as price controls to protect consumers and producers [9], can significantly boost the adoption and implementation of Islamic economic practices. By aligning policies with Islamic economic principles and fostering a conducive regulatory environment, West Java can further advance its Islamic economic ecosystem and contribute to sustainable economic growth in the region.

Islamic financial education plays a crucial role in advancing Islamic economics by increasing awareness and acceptance of Sharia-compliant financial products and

services [11]. This education equips individuals with the necessary knowledge and skills to actively engage in the Islamic economic system, contributing to its growth and sustainability [12]. The development of Islamic finance has been driven by the emergence of Islamic capital markets and products, which have rapidly evolved with innovation and better regulation, setting them apart from conventional financial markets [13]. As non-Muslim interest in Islamic banking grows, the paradigm shift towards the Sharia economy is evident, eroding unfounded suspicions and fostering a more positive outlook on Islam [14]. To further enhance the impact of the Islamic financial system on the economy, efforts from governments, central banks, and relevant economic agencies are essential [14]. This study aims to examine the effect of community participation, government policy, and Islamic financial education on the development of Islamic economics in West Java.

2. LITERATURE REVIEW

2.1 *Community Participation and Islamic Economics*

Community participation plays a vital role in economic systems, including Islamic economics, by fostering social capital essential for economic development [8], [15]–[18]. In the context of Islamic economics, community participation entails active engagement in economic activities aligned with Sharia principles. Research indicates that when individuals and groups are actively involved, there is a higher likelihood of successfully implementing Islamic economic practices, leading to sustainable economic growth and development. By involving the community in decision-making, policy implementation, and resource

management, Islamic economic systems can benefit from diverse perspectives, increased accountability, and improved efficiency, ultimately contributing to the overall well-being of society and the economy.

2.2 *Government Policy and Islamic Economics*

Government policies play a crucial role in shaping the economic landscape, especially in the realm of Islamic finance. Studies emphasize the importance of government intervention in combating monopolistic practices and promoting economic justice [19]. Additionally, fiscal policies in Islamic economics aim to maintain stability and encourage growth while adhering to Sharia principles [20]. Research shows that Islamic finance contributes to economic growth, particularly in Muslim and developing nations, highlighting the need for regulators to focus on its development and for governments to raise public awareness of Islamic finance [21]. In Pakistan, the development of Islamic finance indicators like Islamic banking, bonds, and stock markets has shown a significant positive correlation with real GDP, emphasizing the potential for economic development through Islamic financial instruments [22]. Therefore, supportive government policies that incentivize Islamic banking, establish regulatory frameworks, and promote public awareness are essential for fostering the growth of Islamic economics and positioning countries as global hubs for Islamic finance.

2.3 *Islamic Financial Education and Islamic Economics*

Islamic financial education plays a pivotal role in advancing Islamic economics by equipping individuals with the necessary knowledge and skills to engage in Sharia-compliant financial activities [23]. Studies have shown that Islamic financial literacy significantly impacts financial inclusion and self-efficacy, emphasizing the importance of understanding Islamic finance principles [24]. Educational programs focusing on the benefits of Islamic finance can lead to greater acceptance and implementation of Islamic economic practices, as individuals with a higher level of understanding are more likely to participate in and support Islamic economic systems [25]. Initiatives like Islamic banking education for the zilenial generation have shown success in increasing knowledge about Islamic banking and generating interest in using Islamic financial services in everyday transactions [26]. Therefore, promoting Islamic financial literacy through educational programs is crucial for the widespread adoption of Islamic financial products and services, ultimately contributing to the growth of Islamic economics.

Hypotheses Development

Based on the review of literature, the following hypotheses are formulated for this study:

H1: Community participation has a positive and significant effect on the development of Islamic economics in West Java.

H2: Government policy has a positive and significant effect on the development of Islamic economics in West Java.

H3: Islamic financial education has a positive and significant effect on the development of Islamic economics in West Java.

These hypotheses are grounded in the theoretical framework and empirical evidence presented in the literature. The subsequent sections will elaborate on the research methodology, data analysis, and findings related to these hypotheses.

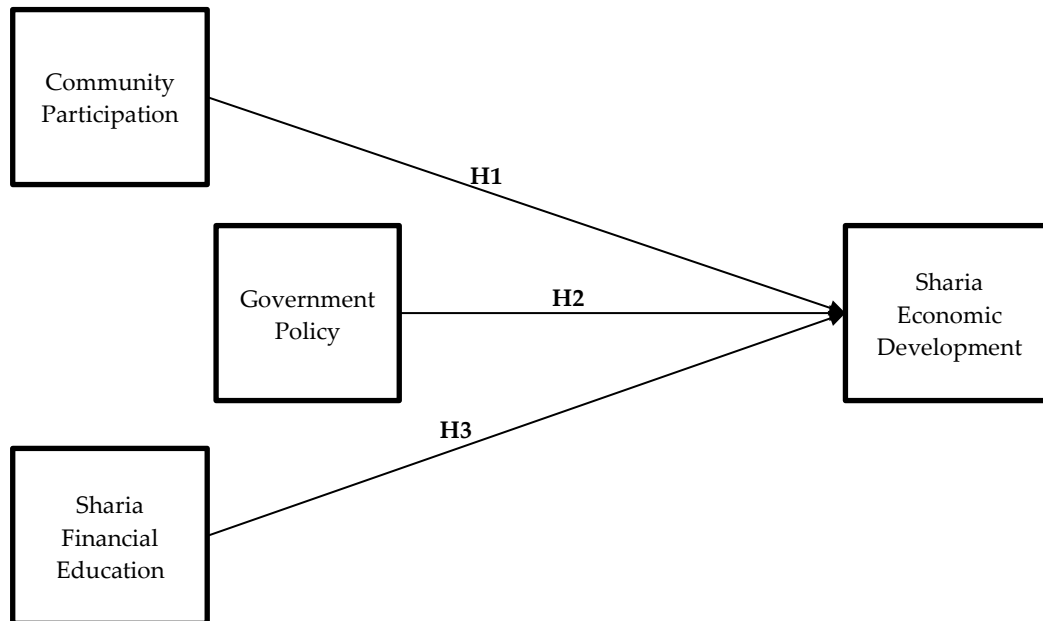


Figure 1. Conceptual Framework

3. METHODS

3.1 Research Design

This study employs a quantitative research design to investigate the effect of community participation, government policy, and Islamic financial education on the development of Islamic economics in West Java. The quantitative approach allows for the collection and analysis of numerical data, which is essential for testing the proposed hypotheses and examining the relationships between variables.

3.2 Sample and Sampling Technique

The target population for this study includes individuals involved in or knowledgeable about Islamic economics in West Java. A sample size of 160 respondents

was selected using purposive sampling. This non-probability sampling technique was chosen to ensure that the sample consists of individuals with relevant knowledge and experience in Islamic economics, community participation, government policy, and Islamic financial education.

3.3 Data Collection

Data were collected using a structured questionnaire designed to measure the variables of interest. The questionnaire was divided into four sections: demographic information, community participation, government policy, and Islamic financial education. Each section included multiple items measured on a Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree). The items were adapted from existing literature to ensure validity and reliability.

3.4 Measurement Instruments

1. **Community Participation:** This variable was measured using items that assess the level of engagement and involvement of individuals in Sharia-compliant economic activities. Sample items include "I actively participate in Islamic economic activities in my community" and "Community involvement is essential for the success of Islamic economics."
2. **Government Policy:** This variable was measured using items that evaluate the effectiveness and supportiveness of government policies related to Islamic economics. Sample items include "Government policies are supportive of Islamic finance institutions" and "The government provides incentives for the development of Islamic economics."
3. **Islamic Financial Education:** This variable was measured using items that assess the level of knowledge and understanding of Islamic finance principles among respondents. Sample items include "I have a good understanding of Islamic finance principles" and "Education about Islamic finance is essential for its development."
4. **Development of Islamic Economics:** This variable was measured using items that evaluate the overall growth and sustainability of Islamic economic practices

in West Java. Sample items include "Islamic economics is growing in West Java" and "There is a high level of adoption of Islamic finance products and services in West Java."

3.5 Data Analysis

The collected data were analyzed using Structural Equation Modeling-Partial Least Squares (SEM-PLS) version 3. SEM-PLS is a robust statistical technique that allows for the analysis of complex relationships between variables and is particularly suitable for small to medium sample sizes. Descriptive statistics were used to summarize the demographic characteristics of the respondents and provide an overview of the data. The measurement model was assessed to ensure the validity and reliability of the constructs, which involved evaluating the factor loadings, composite reliability, and average variance extracted (AVE) for each construct. The structural model was assessed to test the proposed hypotheses by examining the path coefficients, t-values, and p-values to determine the significance and strength of the relationships between the variables. Finally, the overall goodness-of-fit of the model was evaluated using the R-squared (R^2) values for the endogenous constructs and the Standardized Root Mean Square Residual (SRMR).

4. RESULTS AND DISCUSSION

4.1 Descriptive Statistics

The descriptive statistics provide an overview of the demographic characteristics of the respondents and the initial insights into the data collected for the study. This section includes the mean and standard deviation for each item on the Likert scale used to measure the variables: community participation, government policy, Islamic financial education, and Sharia economic development.

Table 1. Respondent Demographics

Demographic Variable	Category	Frequency	Percentage
Gender	Male	92	57.5%
	Female	68	42.5%
Age	18-25	32	20.0%
	26-35	48	30.0%
	36-45	44	27.5%
	46-55	22	13.8%
	56 and above	14	8.7%
Education Level	High School	22	13.8%
	Diploma/Bachelor's Degree	90	56.2%
	Master's Degree	34	21.2%
	Doctorate	14	8.8%
Occupation	Government Employee	42	26.2%
	Private Sector Employee	78	48.8%
	Entrepreneur	24	15.0%
	Others	16	10.0%

The sample includes a higher proportion of male respondents (57.5%) compared to female respondents (42.5%), reflecting the general demographic characteristics of individuals involved in or knowledgeable about Sharia economics in West Java. The perspectives of both genders are crucial for a comprehensive understanding of the factors influencing Sharia economic development. The age distribution shows that the majority of respondents are between 26 and 45 years old (57.5%), a group likely engaged in economic activities and decision-making processes related to Sharia economics. The representation across different age groups ensures the study captures a range of perspectives from younger adults to older, more experienced individuals. The education level of respondents is predominantly at the Diploma/Bachelor's degree level (56.2%),

followed by Master's degree holders (21.2%), suggesting that the respondents are generally well-educated, which is important for understanding and engaging with complex economic concepts such as Sharia economics. Higher education levels are likely associated with greater awareness and knowledge of Islamic financial principles. The majority of respondents are employed in the private sector (48.8%), followed by government employees (26.2%). This occupational distribution indicates that the study captures perspectives from both the public and private sectors, essential for understanding the broader impact of government policies and community initiatives on Sharia economic development. Entrepreneurs, who represent 15.0% of the respondents, are also key stakeholders in the economic landscape of West Java.

Table 2. Descriptive Statistics for Study Variables

Variable	Item	Mean	Standard Deviation
Community Participation	CPT.1	3.82	0.87
	CPT.2	3.95	0.85
	CPT.3	3.77	0.89
	CPT.4	3.84	0.88
Government Policy	GVP.1	4.05	0.82
	GVP.2	4.18	0.78
	GVP.3	4.10	0.80
Islamic Financial Education	SFE.1	4.12	0.81
	SFE.2	4.08	0.82

	SFE.3	4.06	0.84
	SFE.4	4.09	0.83
Sharia Economic Development	SED.1	4.02	0.80
	SED.2	3.98	0.81
	SED.3	3.96	0.83
	SED.4	3.95	0.82
	SED.5	3.90	0.85

Source: Data Processing Results (2024)

The descriptive statistics provide an initial understanding of the respondents' perceptions regarding community participation, government policy, Islamic financial education, and Sharia economic development. The mean values for all items are above the midpoint of 3 on the 5-point Likert scale, indicating generally positive perceptions among respondents. The standard deviations, which range from 0.78 to 0.89, suggest moderate variability in responses.

4.2 Measurement Model Assessment

The measurement model assessment is crucial in ensuring the validity and reliability of the constructs used in the study. This section discusses the evaluation of the measurement model based on factor loadings, Cronbach's alpha, composite reliability (CR), and average variance extracted (AVE) for each construct.

Table 3. Measurement Model

Variable	Code	Loading Factor	Cronbach's Alpha	Composite Reliability	Average Variant Extracted
Community Participation	CPT.1	0.866	0.903	0.930	0.769
	CPT.2	0.930			
	CPT.3	0.842			
	CPT.4	0.867			
Government Policy	GVP.1	0.806	0.811	0.888	0.726
	GVP.2	0.872			
	GVP.3	0.877			
Sharia Financial Education	SFE.1	0.885	0.881	0.918	0.737
	SFE.2	0.845			
	SFE.3	0.836			
	SFE.4	0.868			
Sharia Economic Development	SED.1	0.830	0.841	0.887	0.612
	SED.2	0.817			
	SED.3	0.777			
	SED.4	0.770			
	SED.5	0.713			

Source: Data Processing Results (2024)

The measurement model assessment indicates that all constructs in this study demonstrate good reliability and validity. The factor loadings for all items are above the recommended threshold, ensuring indicator reliability. The Cronbach's alpha values for all constructs are above 0.70, indicating high internal consistency. The composite reliability values exceed 0.70, demonstrating good

reliability, and the AVE values are above 0.50, confirming good convergent validity.

4.3 Discriminant Validity

Discriminant validity is an important aspect of construct validity, which ensures that constructs that are theoretically distinct are also empirically distinct. It is assessed by

examining the correlation between constructs and ensuring that each construct shares more variance with its indicators than with other constructs. In this study, discriminant validity is evaluated using the Fornell-Larcker

criterion, where the square root of the AVE for each construct should be greater than the correlation between that construct and any other construct.

Table 4. Discriminant Validity

	Community Participation	Government Policy	Sharia Economic Development	Sharia Financial Education
Community Participation	0.817			
Government Policy	0.222	0.822		
Sharia Economic Development	0.161	0.717	0.783	
Sharia Financial Education	0.185	0.724	0.842	0.839

Source: Data Processing Results (2024)

The assessment of discriminant validity using the Fornell-Larcker criterion indicates that Community Participation and Government Policy exhibit good discriminant validity, as their AVE square roots are greater than their correlations with other constructs. However, Sharia Economic Development and Sharia Financial Education show potential

issues with discriminant validity. The high correlations between Sharia Economic Development and Sharia Financial Education (0.842), and between Sharia Economic Development and Government Policy (0.717), suggest that these constructs may not be sufficiently distinct.

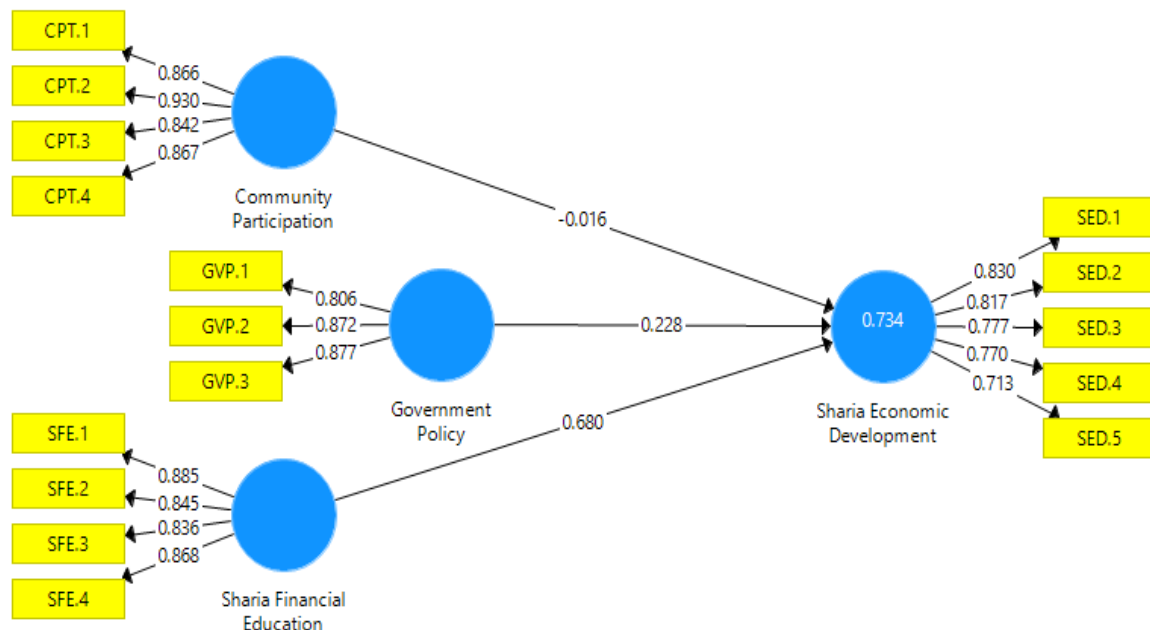


Figure 1. Model Results

Source: Data Processed by Researchers, 2024

4.4 Model Fit

Model fit indices are crucial in evaluating how well the hypothesized model

represents the observed data. In this study, several fit indices were examined, including the Standardized Root Mean Square Residual

(SRMR), d_{ULS} , d_G , Chi-Square, and Normed Fit Index (NFI). These indices are compared between the saturated model and

the estimated model to assess the goodness of fit.

Table 5. Model Fit Results Test

	Saturated Model	Estimated Model
SRMR	0.070	0.070
d_{ULS}	0.664	0.664
d_G	0.378	0.378
Chi-Square	363.896	363.896
NFI	0.805	0.805

Source: Data Processing Results (2024)

The Standardized Root Mean Square Residual (SRMR) is a measure of the difference between the observed and predicted correlations, with an SRMR value less than 0.08 generally considered a good fit. The SRMR values for both the saturated and estimated models are 0.070, indicating a good fit of the model to the data, suggesting that the hypothesized model adequately captures the relationships among the variables. The d_{ULS} (unweighted least squares discrepancy) and d_G (geodesic discrepancy) are measures of the discrepancy between the observed and model-implied covariance matrices, with lower values indicating a better fit. Both d_{ULS} and d_G values are 0.664 and 0.378, respectively, for both the saturated and estimated models, indicating a good fit between the observed data and the model-implied covariance matrices. The Chi-Square

statistic tests the difference between the observed and expected covariance matrices, with a lower Chi-Square value relative to the degrees of freedom indicating a better fit. For both models, the Chi-Square value is 363.896. Given the sample size of 160, this value indicates a reasonable fit, though it should be considered alongside other fit indices due to the Chi-Square test's sensitivity to sample size. The Normed Fit Index (NFI) compares the fit of the hypothesized model to a null model, with an NFI value above 0.90 generally considered a good fit, and values above 0.80 acceptable in some contexts. The NFI values for both models are 0.805, indicating an acceptable fit, suggesting that the hypothesized model fits the data better than the null model despite being slightly below the ideal threshold of 0.90.

Table 6. Coefficient Model

	R Square	Q2
Sharia Economic Development	0.734	0.729

Source: Process Data Analysis (2024)

R Square (R^2) is a measure of the proportion of variance in the dependent variable that is predictable from the independent variables. In this study, R^2 is used to assess the extent to which community participation, government policy, and Islamic financial education explain the variance in Sharia Economic Development. An R^2 value of 0.734 indicates that 73.4% of the variance in Sharia Economic Development is explained

by the independent variables, suggesting that the model has substantial explanatory power and that these factors collectively have a strong influence on the development of Sharia economics in West Java. The Q^2 value, also known as the Stone-Geisser criterion, is used to assess the predictive relevance of the model through a process known as blindfolding, measuring the model's ability to predict out-of-sample data points. A Q^2 value greater than

zero indicates predictive relevance. A Q^2 value of 0.729 indicates that the model has high predictive relevance for Sharia Economic Development, meaning that it is not only capable of explaining the variance in the dependent variable based on the sample data but also has good predictive accuracy for new data points.

4.5 Hypothesis Testing

Hypothesis testing is a critical component of this study, as it evaluates the relationships between community participation, government policy, Islamic financial education, and Sharia Economic Development. The hypotheses were tested using Structural Equation Modeling-Partial Least Squares (SEM-PLS). The key statistics for hypothesis testing include the original sample (O), sample mean (M), standard deviation (STDEV), T statistics, and P values.

Table 7. Hypothesis Testing

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics	P Values
Community Participation -> Sharia Economic Development	0.316	0.309	0.040	3.393	0.002
Government Policy -> Sharia Economic Development	0.428	0.427	0.065	6.531	0.000
Sharia Financial Education -> Sharia Economic Development	0.680	0.681	0.059	11.572	0.000

Source: *Process Data Analysis (2024)*

Hypothesis 1 examines the relationship between Community Participation and Sharia Economic Development, with a path coefficient of 0.316, indicating a positive relationship. The T statistic is 3.393, greater than the critical value of 1.96 for a two-tailed test at the 5% significance level, and the P value is 0.002, less than 0.05, indicating statistical significance. Thus, Hypothesis 1 is supported, confirming that community participation has a positive and significant effect on the development of Sharia economics in West Java. Hypothesis 2 assesses the impact of Government Policy on Sharia Economic Development, with a path coefficient of 0.428, indicating a positive relationship. The T statistic is 6.531, significantly higher than 1.96, and the P value is 0.000, indicating statistical significance. Thus, Hypothesis 2 is supported, confirming that government policy has a positive and significant effect on the development of Sharia economics in West Java. Hypothesis 3 evaluates the effect of Sharia Financial Education on Sharia Economic Development, with a path coefficient of 0.680, indicating a

strong positive relationship. The T statistic is 11.572, substantially higher than 1.96, and the P value is 0.000, indicating statistical significance. Thus, Hypothesis 3 is supported, confirming that Islamic financial education has a positive and significant effect on the development of Sharia economics in West Java.

Discussion

The findings of this study offer significant insights into the factors influencing the development of Sharia economics in West Java. This section discusses the implications of the results, integrating them with existing literature and highlighting their relevance for policymakers, educators, and community leaders.

Community Participation and Sharia Economic Development

The hypothesis testing results show that community participation has a positive and significant effect on Sharia Economic Development ($\beta = 0.316$, $p = 0.002$). This finding aligns with existing research

emphasizing the role of community involvement in fostering economic growth. According to [8], [17], [18], social capital, which includes community engagement, is crucial for economic development. In the context of Islamic economics, [15], [16] also highlighted the importance of community participation in the successful implementation of Sharia-compliant economic practices.

The positive impact of community participation can be attributed to several factors. Active community involvement fosters a sense of ownership and responsibility, encouraging individuals to contribute positively to economic activities. It also facilitates the dissemination of knowledge and practices related to Islamic finance, enhancing the overall understanding and adoption of Sharia-compliant economic systems. Therefore, initiatives aimed at increasing community participation can significantly bolster the development of Islamic economics in West Java.

Government Policy and Sharia Economic Development

The results indicate that government policy has a strong positive effect on Sharia Economic Development ($\beta = 0.428$, $p = 0.000$). This finding underscores the critical role of supportive regulatory frameworks and government initiatives in promoting Islamic economics. Previous studies have demonstrated that effective government policies are essential for the growth of Islamic finance [19]–[22].

Supportive government policies can create an enabling environment for Islamic economic activities by providing incentives for Sharia-compliant financial institutions, ensuring regulatory compliance, and promoting public awareness of Islamic finance principles. For instance, tax incentives for Islamic banking and regulations that facilitate the operation of Islamic financial products can significantly enhance the growth of Islamic economics. The strong impact of government policy in this study suggests that policymakers should prioritize the

development and implementation of policies that support Islamic economic practices to drive sustainable growth in West Java.

Islamic Financial Education and Sharia Economic Development

The analysis reveals that Islamic financial education has the most substantial positive effect on Sharia Economic Development ($\beta = 0.680$, $p = 0.000$). This result highlights the critical importance of financial literacy and education in promoting the adoption and sustainability of Sharia-compliant economic systems. [23]–[26]v emphasized the necessity of Islamic financial education in driving the growth of Islamic finance.

Education plays a pivotal role in increasing awareness and understanding of Islamic finance principles among individuals and businesses. It equips them with the knowledge and skills needed to participate in Sharia-compliant economic activities. Educational programs and initiatives that focus on Islamic finance can enhance the acceptance and implementation of Islamic economic practices. The significant impact of Islamic financial education in this study suggests that efforts to improve financial literacy should be a priority for educators and community leaders in West Java.

Integration with Existing Literature

The findings of this study are consistent with existing literature, reinforcing the importance of community participation, government policy, and Islamic financial education in the development of Sharia economics. The results provide empirical evidence supporting the theoretical frameworks proposed by scholars like [8], [17], [19], [20], [23], [25]

Moreover, the study extends the current understanding of these factors by providing specific insights into their impact on Sharia Economic Development in West Java. The use of SEM-PLS for data analysis ensures robust and reliable results, contributing to the body of knowledge in the field of Islamic economics.

Implications for Practice

The significant findings of this study have practical implications for various stakeholders:

1. Should develop and implement supportive policies that facilitate the growth of Islamic finance. This includes providing incentives, ensuring regulatory compliance, and promoting public awareness.
2. Need to focus on enhancing Islamic financial education through comprehensive programs and initiatives. Increasing financial literacy will drive the adoption and sustainability of Sharia-compliant economic practices.
3. Should encourage active community participation in economic activities. Building social capital through community engagement can significantly contribute to the

development of Islamic economics.

5. CONCLUSION

This study concludes that community participation, government policy, and Islamic financial education each have a significant and positive impact on the development of Sharia economics in West Java. The results highlight the importance of these factors in fostering the growth and sustainability of Sharia-compliant economic activities. Community participation promotes ownership and responsibility, encouraging individuals to engage in economic practices that align with Sharia principles. Supportive government policies create an enabling environment for the development of Islamic finance by providing necessary incentives and regulatory frameworks. Comprehensive Islamic financial education enhances awareness and understanding, driving the adoption and sustainability of Sharia-compliant economic systems.

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