

A Critical Evaluation of Islamic Economic Growth in Developing Countries

ABSTRACT - Persistent socio-economic disparities and growing concerns over ethical economic governance have renewed interest in Islamic economics as an alternative development paradigm in the Global South. While conceptually compelling, its real-world application continues to face structural, institutional, and policy-related constraints that limit its transformative capacity. This study critically evaluates the development trajectory of Islamic economics in selected developing countries, focusing on the alignment of spiritual values with public policy and economic systems. A qualitative, reflective-descriptive design is employed using document analysis grounded in institutional theory, Islamic moral economy, and adaptive policy frameworks. The data consist of scholarly publications, official reports, and strategic policy documents published between 2015 and 2025, with particular attention to OIC member countries including Indonesia, Malaysia, Saudi Arabia, and Pakistan. Thematic analysis reveals that strong institutions, flexible regulatory environments, and digital readiness are central to effective Islamic economic transformation. However, uneven regional development, non-contextualized policy designs, limited stakeholder engagement, and weak integration of Islamic economic education remain persistent challenges. The findings further indicate that policy interventions often remain symbolic due to the absence of dialogical and participatory governance mechanisms. Theoretically, this research advances understanding of how *maqasid* al-shariah can be translated into sustainable development practices. Practically, it offers direction for cross-sectoral collaboration, educational reform, and inclusive digital infrastructure. Overall, the study highlights the importance of a *glocal* approach that balances local socio-cultural realities with global development aspirations.

ABSTRAK - *Evaluasi Kritis Pertumbuhan Ekonomi Syariah di Negara Berkembang.* Ketimpangan sosial-ekonomi yang terus berlanjut serta meningkatnya tuntutan terhadap tata kelola ekonomi yang beretika telah mendorong ekonomi Islam kembali dipandang sebagai paradigma pembangunan alternatif di negara-negara berkembang. Meskipun kuat secara konseptual, implementasi ekonomi Islam dalam praktik masih dihadapkan pada berbagai keterbatasan struktural, kelembagaan, dan kebijakan yang menghambat daya transformasinya. Penelitian ini mengkaji secara kritis dinamika perkembangan ekonomi Islam di sejumlah negara berkembang dengan menyoroti keterpaduan nilai-nilai spiritual, kebijakan publik, dan sistem ekonomi. Penelitian menggunakan pendekatan kualitatif dengan desain reflektif-deskriptif melalui analisis dokumen, yang berpijak pada teori kelembagaan, ekonomi moral Islam, dan kerangka kebijakan adaptif. Sumber data meliputi artikel ilmiah, laporan resmi, dan dokumen kebijakan strategis yang diterbitkan pada periode 2015–2025, dengan fokus pada negara anggota OKI seperti Indonesia, Malaysia, Arab Saudi, dan Pakistan. Hasil analisis tematik menunjukkan bahwa kekuatan institusi, fleksibilitas regulasi, dan kesiapan digital merupakan faktor kunci dalam mendorong transformasi ekonomi Islam. Namun, kesenjangan regional, kebijakan yang kurang kontekstual, rendahnya partisipasi pemangku kepentingan, serta lemahnya integrasi pendidikan ekonomi Islam masih menjadi tantangan utama. Secara teoretis, penelitian ini memperkaya pemahaman mengenai penerapan *maqasid* al-shariah dalam kerangka pembangunan berkelanjutan. Secara praktis, temuan penelitian memberikan arahan kebijakan untuk memperkuat kolaborasi lintas sektor, reformasi pendidikan, dan pembangunan infrastruktur digital yang inklusif melalui pendekatan global.

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INTRODUCTION

The global economy has undergone profound structural shifts over the past decade, exposing deep-seated vulnerabilities that conventional economic frameworks have struggled to adequately address. Rising socio-economic inequalities—particularly in developing countries—have been intensified by the cascading effects of the post-COVID-19 economic crisis, escalating geopolitical conflicts, and persistent inflationary pressures that have eroded household resilience and widened income disparities (WorldBank, 2025). These converging crises have renewed intellectual and policy interest in alternative economic systems—ones capable of not merely responding to fiscal and monetary imbalances but of embedding distributive justice, ethical governance, and human dignity as foundational principles. It is within this context that Islamic economics has gained considerable scholarly and practitioner attention, offering a development paradigm that integrates spiritual values with systemic financial stability and long-term social sustainability (Chapra, 2008; Wilson, 2008). The appeal of this framework extends beyond crisis management; it articulates a vision for balancing material prosperity with moral accountability—a vision that speaks directly to the structural challenges confronting many developing societies today.

At a theoretical level, Islamic economics offers a distinctive model of economic organization grounded in value-based financial principles. The prohibition of *riba* (usury), mechanisms for equitable risk-sharing, and an overarching orientation toward *maqasid al-shariah*—the higher objectives of Islamic law emphasizing public welfare—collectively distinguish this system from conventional finance, which has long been critiqued for prioritizing capital accumulation and speculative activity over social equity (Choudhury, 1992; Iqbal & Mirakhor, 2011). Yet translating this theoretical promise into sustained practical impact remains a formidable challenge. In many developing countries, the implementation of Islamic economics continues to be constrained by regulatory limitations, institutional capacity gaps, and insufficient integration of Islamic financial institutions into broader national development strategies (Dzulkepli & Barom, 2021; Kamla & Rammal, 2013). These structural barriers are compounded by persistently low levels of Islamic financial literacy, inequitable access to Shariah-compliant financial products, and the entrenched dominance of conventional financial structures—collectively leaving the transformative potential of the Islamic economic model largely unrealized (Yakubu et al., 2025; Zirek et al., 2016). Addressing these obstacles demands not incremental adjustment but a value-driven and participatory transformation of both institutional arrangements and public policy frameworks.

Despite these challenges, the empirical trajectory of the global Islamic finance industry points to remarkable and sustained growth. As illustrated in Figure 1, total global Islamic financial assets rose from approximately USD 2.17 trillion in 2015 to USD 3.96 trillion in 2021, with projections indicating further expansion to between USD 6.0 and USD 6.7 trillion by 2026–2027 (ICD-Refinitiv, 2022; ICD-LSEG, 2023). This upward trajectory signals growing market confidence in Shariah-compliant financial instruments as credible alternatives within the global financial architecture. However, closer scrutiny reveals significant geographical concentration: more than 70% of global Islamic financial assets remain clustered in five countries—Saudi Arabia, Iran, Malaysia, the United Arab Emirates, and Indonesia—effectively excluding the majority of developing nations from meaningful participation in the global Islamic economic ecosystem

(IFSB, 2023; Yakubu et al., 2025; Zirek et al., 2016). This spatial imbalance not only reflects structural ownership disparities but also renders the industry disproportionately sensitive to regional political dynamics and external economic shocks.

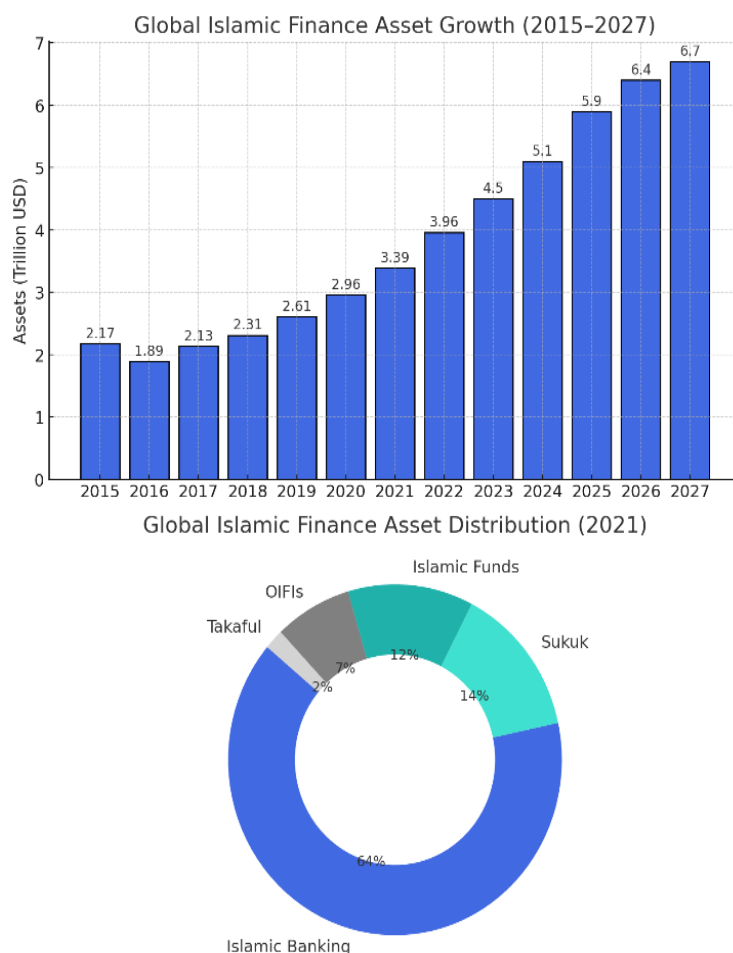


Figure 1. Projected Growth of Global Islamic Financial Assets (2015–2027, USD Trillion)

These patterns invite a more critical appraisal of the widening gap between the conceptual aspirations of Islamic economics and its ground-level realities. A growing body of scholarship suggests that contemporary Islamic economic practice has, in many instances, converged toward conventional financial models rather than genuinely embodying the transformational values of Shariah (Ahmad & Berghout, 2025; El-Gamal, 2006). Simultaneously, the enabling role of governance and public policy in fostering Islamic economic development remains underexplored and insufficiently leveraged (Haniffa & Hudaib, 2007). The limited articulation of *maqasid al-shariah* principles within national policy frameworks continues to obstruct the emergence of a coherent and sustainable Islamic economic system. Therefore, a critical evaluation of the development of Islamic economics in developing countries is essential to identify structural barriers and formulate more integrative and inclusive acceleration strategies.

This study aims to critically evaluate the development of Islamic economics in developing countries over the past decade by examining its structural dynamics, institutional challenges, and the degree to which *maqasid al-shariah* principles have been integrated into national economic policy frameworks. The research further seeks to map regional and sectoral disparities in

implementation and growth, and to formulate strategic recommendations for accelerating a more inclusive and sustainable transformation of Islamic economics across the developing world.

LITERATURE REVIEW

Theoretical Perspective

Studies in Islamic economics often refer to three main theoretical frameworks. First, the Islamic Moral Economy framework emphasizes the integration of moral and spiritual values into the economic structure, thereby creating a system that is not only oriented toward efficiency and profit but also upholds justice and social sustainability (Asutay, 2025; Chapra, 2008). Second, the concept of *maqasid al-shariah* serves as an evaluative framework to ensure that economic policies and practices align with the objectives of Shariah, such as the protection of religion, life, intellect, lineage, and wealth (Kasri et al., 2023; Guney, 2024). Third, the institutional approach and structural dependency theory explain that global inequality and weak domestic institutions hinder the adoption of Islamic economics, particularly amidst the dominance of conventional financial systems and limited regulatory capacity (Karbhari et al., 2021; Pratama, 2024). These three frameworks complement one another in providing a robust conceptual foundation for understanding the complexity of Islamic economics in a holistic manner.

Conceptualization of Islamic Economics

Islamic economics is an economic system rooted in Islamic Shariah principles that integrates spiritual and ethical values into economic activities. Its primary objective is to achieve social justice and public welfare (*falah*) by addressing inequality, financial exclusion, and exploitative economic practices (Chapra, 2008; Iqbal & Mirakhor, 2011). Islamic economics has emerged as a response to the shortcomings of the conventional capitalist system, particularly following the 2008 global financial crisis and the COVID-19 pandemic (Alasrag, 2010; Arfah et al., 2020). In contrast to the capitalist approach, which emphasizes market efficiency and capital accumulation, Islamic economics upholds distributive justice, social balance, and moral responsibility. The system does not merely pursue short-term profit but also considers long-term sustainability and spiritual well-being. Thus, Islamic economics is not merely an alternative financial system but a comprehensive value-based development paradigm. This makes it increasingly relevant in addressing the multidimensional challenges of today's global economy.

Dimensions of Islamic Economics

Islamic economic activities are divided into several main sectors, including Islamic banking, Islamic capital markets, zakat and waqf, Islamic fintech, and takaful (Islamic insurance). Each of these sectors operates based on core principles such as the prohibition of *riba* (interest), *gharar* (uncertainty), *maysir* (gambling), and the obligation to ensure fair wealth distribution (Iqbal & Mirakhor, 2011; Usmani, 1998; Alhammadi et al., 2022). In the context of Islamic value-based economic development, (Ahyani et al., 2021) emphasize the importance of integrating the values of *rahmatan lil 'alamin* as a philosophical foundation in shaping a just and inclusive economic system. This leads to the establishment of a financial system that promotes risk-sharing and real participation in economic activities (El-Gamal, 2006; Usmani, 1998). Several studies also highlight the importance of *maqasid al-shariah* as a normative framework to assess the success

of various sectors within Islamic economics in achieving both social and spiritual objectives (Guney, 2024); Laldin, 2022; Ahmad & Berghout, 2025).

Trends in Development and Acceleration

Over the past decade, Islamic economics has experienced significant growth, particularly in developing countries. According to (ICD-LSEG, 2023), global Islamic financial assets increased from US\$2.17 trillion in 2015 to US\$3.96 trillion in 2021 and are projected to reach US\$6.7 trillion by 2027. However, this growth has not been evenly distributed, with more than 70% of assets concentrated in five countries: Saudi Arabia, Iran, Malaysia, the UAE, and Indonesia (IFSB, 2023). Nevertheless, a positive trend can be observed in the expansion of Islamic fintech and the integration of ethical and sustainability values within the Islamic economic framework (Rusydia & Ali, 2022; Shafiya et al., 2023; Ateeq et al., 2025). This indicates a dynamic shift in Islamic finance that is increasingly adapting to contemporary demands. Despite strong regional dominance, there remains significant potential for expansion into other regions, supported by growing public awareness and literacy in ethical finance. Strengthening institutional infrastructure and adopting inclusive national policies are key to expanding the reach of Islamic economics more equitably.

Empirical Evidence

In the study of Islamic economics, various approaches have been employed, including quantitative methods (such as panel ARDL, VAR, and multivariate regression), qualitative methods (such as case studies and grounded theory), and mixed-method designs. The majority of studies indicate a positive correlation between Islamic economics and economic growth, financial inclusion, and economic resilience in OIC countries (Zirek et al., 2016; Yakubu et al., 2025; Kamalu & Ibrahim, 2021). However, several challenges persist, including inconsistent regulations, the replication of conventional systems, and low literacy regarding Shariah principles (Hanif & Ayub, 2022; Ahmad & Berghout, 2025). These obstacles suggest that the success of Islamic economics relies not only on financial instruments but also on the readiness of social and institutional ecosystems. Therefore, it is essential to strengthen synergy among authorities, financial institutions, and educational institutions to enhance understanding and implementation of Shariah principles. A cross sectoral approach and value-based policymaking could serve as strategic pathways to address these challenges and promote the sustainability of Islamic economics moving forward.

Gap Analysis and Research Contribution

The literature on Islamic economics has expanded considerably; however, several significant gaps remain. Most studies tend to focus on macro-level quantitative analysis, with limited exploration of micro-level studies grounded in the context of developing countries. Yet, local-level research is crucial for understanding the implementation of Islamic economics at the community level. Additionally, the relationship between *maqasid al-shariah* and national economic policy has not been thoroughly analyzed as an integrated conceptual framework for public policy. Furthermore, comparative studies across countries with varying levels of Islamic economic adoption are still scarce, making it difficult to capture institutional variations and the success of implementation across regions. This study seeks to address these gaps through a

qualitative, evaluative, and critical approach to the structural dynamics of Islamic economics. Its objective is to map participatory acceleration strategies based on *maqasid al-shariah*, aimed at ensuring spatially equitable distribution across developing countries.

METHODOLOGY

Research Design

This study adopts an exploratory qualitative approach using a desk review method as its primary research strategy. This approach was chosen because the study aims to deeply explore the structural dynamics, implementation challenges, and acceleration strategies of Islamic economics in developing countries. The topic under investigation is complex and multidimensional, encompassing normative, social, and institutional aspects that cannot be adequately explained through quantitative methods (Creswell, 2013). This approach aligns with the study by (Ariyanti et al., 2024), which emphasizes the importance of evaluating Islamic economics for sustainable development. In addition, (Noori et al., 2023) support this argument through their structural analysis of economic convergence in the Islamic world. Similarly, (Dayu et al., 2024) discuss the strategies and challenges of Islamic economic systems in Southeast Asia as a contextual comparison. This study aims to generate reflective and conceptual insights into the structural realities of Islamic economics in the Global South, as well as to formulate value-based and critically informed acceleration strategies.

Data Collection

The research data were derived from secondary literature, including reputable international journals, academic books, and global institutional reports such as those from the IFSB, ICD-LSEG, and the World Bank covering the period 2015-2025. The literature was selected through purposive sampling by considering thematic relevance, source credibility, and its contribution to understanding Islamic economics in developing countries. The literature search process was conducted using Scopus, ScienceDirect, and Google Scholar (Bowen, 2009). The selected sources encompass studies examining the development of Islamic economics, implementation challenges, and strategies to strengthen Islamic financial systems across various geographical, developmental, and institutional contexts, thereby enriching the analysis and enhancing the relevance of the data (Ames et al., 2019; Ayo & Mayo, 2019). This approach is consistent with prior research, such as the study by (Elfaki & Embi, 2023), which employed document-based content analysis to investigate Islamic cooperatives in OIC member countries.

Data Analysis

Data analysis was conducted using content analysis and thematic analysis to identify patterns, strategic issues, and policy trends. The analytical stages included data collection and organization, data reduction, thematic categorization, contextual policy interpretation, and the construction of argumentative synthesis (Miles et al., 2014). The validity or trustworthiness of the findings was ensured through source triangulation, critical literature evaluation, and thematic reflection grounded in a qualitative approach (Vaismoradi et al., 2016). A cross-country analytical lens was employed to understand structural variations in Islamic economic practices, ensuring that the findings remained grounded in empirical realities and normative theory while

enhancing interpretive credibility. This approach generates reflective, credible, and policy-relevant insights for advancing Islamic economic development that is just, inclusive, and adaptive (Humble & Mozelius, 2022).

RESULTS AND DISCUSSION

Results

A thematic analysis of academic literature, international institutional reports, and policy documents on Islamic economics spanning 2015 to 2025 reveals that the development of Islamic economics in developing countries has progressed meaningfully, yet in an uneven manner across both geographical and sectoral dimensions. The strongest growth has occurred in Islamic banking, Islamic capital markets, and social finance instruments, particularly in key countries such as Saudi Arabia, Iran, Malaysia, the UAE, and Indonesia. However, many other OIC member states have yet to fully optimize their potential due to institutional limitations, unresponsive regulatory frameworks, and insufficient human capital and supporting infrastructure. The findings are elaborated in the subsections below and summarised in Figure 2.

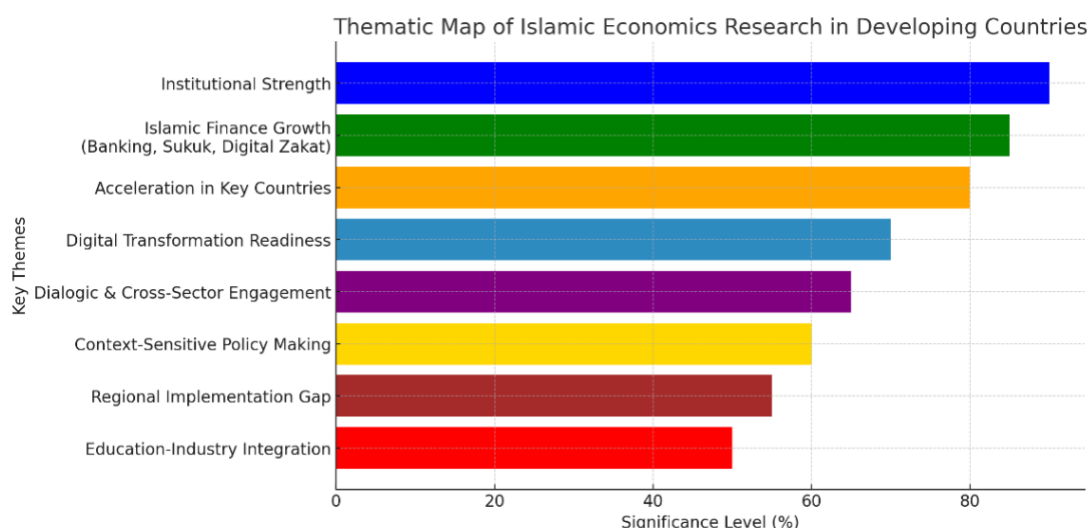


Figure 2. Evaluation of Islamic Economics in Developing Countries.

Institutional Capacity as the Primary Determinant of Islamic Economic Development

The thematic coding process identified institutional capacity strengthening as the single most dominant factor shaping the trajectory of Islamic economics in developing countries, recording a thematic occurrence weight of approximately $\pm 90\%$. This finding indicates that institutional strength—encompassing adaptive regulatory frameworks, the quality of Shariah governance, and overall institutional capability—constitutes the most critical determinant in accelerating Islamic economic development. Nations that have established robust institutional foundations are better positioned to cultivate a progressive Islamic financial ecosystem characterised by innovation, operational efficiency, and broader financial inclusion. This finding resonates with a substantial body of literature underscoring the centrality of regulatory systems and governance structures as foundational pillars in the advancement of the Islamic financial system (Hanif & Ayub, 2022; Issa et al., 2021; Karbhari et al., 2021; Kamla & Rammal, 2013).

Alongside this, the study identifies a pervasive tendency toward symbolic and normative approaches that are not yet undergirded by adequate implementation strategies. Several jurisdictions continue to prioritise moral and spiritual (*ukhrawi*) dimensions without complementing these with operational policy mechanisms—a pattern reflected in the limited sustainability and social responsibility reporting observed among Islamic financial institutions. In principle, Islamic economics demands the integration of ethical values, social justice, and sustainability within economic practice. Accordingly, institutional reform grounded in *maqasid al-shariah*, the enhancement of regulatory capacity, and the strengthening of cross-authority coordination have become strategic imperatives for realising the transformative potential of Islamic economics within national development frameworks.

Significant Expansion of the Islamic Finance Sector

Thematic coding identified the growth of the Islamic financial sector as the second most dominant theme, with a thematic occurrence weight of approximately $\pm 85\%$. This finding underscores that the expansion of the Islamic financial ecosystem serves as a key structural pillar in advancing Islamic economics across developing nations. Such growth is evidenced in the substantial increase in industry assets, particularly in Islamic banking, Islamic capital markets, and social finance instruments—including zakat management, digital waqf, and Islamic fintech. International industry reports corroborate this trend, documenting a marked expansion in global Islamic financial assets over the past decade (ICD-Refinitiv, 2022; ICD-LSEG, 2023; IFSB, 2023).

The growth of *sukuk* instruments stands out as a primary indicator of sectoral success, particularly in financing infrastructure projects, supporting fiscal sustainability, and broadening investor participation within an ethical investment framework. *Sukuk* are increasingly regarded as secure, Shariah-compliant, and economically attractive instruments that have demonstrably contributed to sustainable development and the reduction of social inequality (Lubis et al., 2024; Naz & Gulzar, 2022). Concurrently, Islamic fintech and digital zakat platforms play a vital role in promoting financial inclusion, particularly among communities historically excluded from formal financial systems. Through more transparent, faster, and locally adaptive distribution models, these innovations have enhanced accessibility and amplified the social impact of Islamic finance (Rahman et al., 2023).

This expansion is further reinforced by rising levels of Islamic financial literacy and increasing regulatory support for Shariah-based financial innovation. OIC member countries that have developed national Islamic finance strategies and digital ecosystems demonstrate more accelerated progress compared to those still reliant on traditional approaches (Kazak & Okka, 2022). These findings suggest that the growth of Islamic finance has transitioned beyond moral and normative imperatives into a phase of structural consolidation, driven by innovation and well-calibrated policy responses that foster economic stability, expand financial access, and promote more inclusive growth.

Accelerated Development in Selected Developing Countries

The theme of Islamic economic acceleration in specific national contexts emerged as the third most dominant finding, with a thematic occurrence weight of approximately $\pm 80\%$. This finding

highlights the pronounced unevenness in the pace of Islamic economic development across the developing world. The most significant acceleration has been observed in Indonesia, Malaysia, Saudi Arabia, the Gulf Cooperation Council (GCC) region, and Pakistan—countries where institutional strengthening, regulatory consistency, and alignment with national development policies have functioned as primary drivers of progress. These findings are consistent with empirical evidence demonstrating that countries with proactive policy frameworks, clearly defined industry strategies, and strong state support channelled through national Islamic economy blueprints tend to achieve faster and more stable growth (Kasri et al., 2023; Wahyudi et al., 2025).

In these contexts, Islamic economics has been mainstreamed into national development agendas through governmental and regulatory commitments expressed in master plans, enhanced Shariah governance structures, human capital development initiatives, and inclusive digital ecosystems. Malaysia and Indonesia, for instance, have pursued integrative policies spanning Islamic banking, capital markets, fintech, and social finance. Saudi Arabia, through its Vision 2030 initiative, has prioritised human capital development, financial market innovation, and institutional restructuring in the pursuit of a more competitive and sustainable Islamic economic ecosystem. Pakistan and several GCC states, meanwhile, have demonstrated notable progress in the digitalisation of Shariah-compliant financial services and the advancement of financial inclusion, reflecting cross-sectoral institutional commitment.

These findings reinforce the view that the synergy among governance quality, technological capability, and political will is what distinguishes countries that successfully accelerate Islamic economic growth from those that progress more slowly. Conceptually, the results lend support to the argument that structural reform grounded in *maqasid* al-shariah, supported by progressive policy measures and technological innovation, constitutes the key to advancing Islamic economic transformation in developing nations. The experiences of these leading countries demonstrate that the success of Islamic economics is determined not merely by market potential, but fundamentally by a visionary, responsive, and institutionally innovative architecture.

Delayed Responsiveness to Digital Transformation

The theme of delayed responsiveness to digital transformation emerged as the fourth major finding, with a thematic occurrence weight of approximately $\pm 70\%$. Despite the immense potential of digital innovation within the Islamic economic system, many developing countries continue to face structural and implementation barriers. The unpreparedness of Islamic financial institutions to adopt digital technology frequently stems from concerns over Shariah compliance, insufficient infrastructure, uneven technological capacity, and the absence of comprehensive pro-digital policy frameworks. This is paradoxical given that digital innovation has been demonstrated to expand access to financial services, accelerate the distribution of Islamic social funds, and strengthen financial inclusion in remote and vulnerable communities (Irfan & Rusmita, 2023; Rahman et al., 2023).

Many Islamic financial institutions remain cautious about integrating digital solutions, owing to concerns about whether digital products fully satisfy Islamic principles. However, research suggests that digitalisation and Shariah compliance are not mutually exclusive; on the contrary,

they can be mutually reinforcing when supported by appropriate fatwas, regulatory frameworks, and technical guidelines (Malik & Shahzad, 2025). While Indonesia and Malaysia have made notable progress—through Islamic mobile banking, digital waqf and zakat wallets, and Shariah-compliant crowdfunding platforms—many Islamic financial institutions remain hesitant to deepen digital investment due to regulatory uncertainty and the limited readiness of Shariah supervisory frameworks to govern emerging technologies such as blockchain and AI-based fintech (Shafiya et al., 2023; Wahyudi et al., 2025).

The gap between the potential and the actual realisation of digitalisation within the Islamic economic ecosystem indicates that technology integration remains partial and unsystematic, particularly in developing countries. This lag has impeded Islamic financial services from fully addressing financial inclusion needs, transaction efficiency, and transparency in the distribution of Islamic social funds. To maximise the benefits of digital transformation, a more progressive policy strategy is required—one that centres on the enhancement of digital literacy, the development of technological infrastructure, and the harmonisation of Shariah compliance standards for digital innovation. Such efforts are essential to ensure that technological transformation proceeds in alignment with *maqasid* al-shariah and contributes to equitable access to Islamic financial services.

Insufficient Dialogical and Integrative Approaches

The absence of dialogical and participatory approaches in Islamic economic policymaking emerged as the fifth most prominent theme, with a relative thematic weight of approximately $\pm 65\%$. This finding reveals that many developing countries have yet to fully adopt cross-sectoral, inter-institutional, and interregional collaborative frameworks in their pursuit of Islamic economic transformation. Resistance to interdisciplinary knowledge integration, regulatory fragmentation, and weak institutional synergy have collectively decelerated structural reform and policy innovation processes. Fragmented regulatory environments across regions and institutions have resulted in low standardisation, misaligned governance practices, and limited interoperability among Islamic financial systems—generating coordination gaps, reduced transparency, and constrained public participation that have, in certain contexts, eroded public trust in Islamic institutions. This fragmentation has also rendered the operation of harmonised service models across national and international jurisdictions more difficult, diminishing operational efficiency and institutional competitiveness.

This finding resonates with critical perspectives in the literature that foreground the tendency of Islamic economics to replicate conventional financial systems in a normative rather than substantively transformative manner (Chapra, 2008; El-Gamal, 2006). The success of Islamic economics ultimately depends on its capacity to establish dialogical, responsive, and accountable institutional structures that integrate the aspirations of communities, policymakers, academics, and industry practitioners into the policymaking process (Ahmad & Berghout, 2025; Laldin, 2022; Rusydiana & Ali, 2022). Participatory and collaborative institutional reform is therefore essential to foster genuine innovation, resist the imitation of conventional systems, and ensure that policy orientations remain anchored in *maqasid*-based objectives of justice, sustainability, and social well-being.

The Dominance of Non-Contextual and Normative Policymaking

Thematic analysis identified non-contextual and normative policymaking as the sixth most significant theme, with a relative weight of approximately $\pm 60\%$. This finding indicates that, notwithstanding the emphasis on institutional capacity, financial sector growth, national acceleration programmes, and digital initiatives, the dominance of symbolic and decontextualised policy frameworks remains a major unresolved concern across many developing economies. Islamic economic policies in several jurisdictions continue to adopt a formalistic, legalistic, and normative orientation—prioritising moral and religious legitimacy while neglecting evidence-based policymaking and the need for structural reform. Many regulatory frameworks focus primarily on symbolic compliance with Shariah principles yet lack operational instruments, substantive supervisory mechanisms, standardised reporting guidelines, and institutional capacity-building measures that support long-term sustainability objectives. This underscores the necessity of transitioning toward context-sensitive policymaking: a more adaptive, data-driven, and *maqasid*-oriented framework that aligns policy implementation with the socio-economic realities of Muslim societies.

The prevailing condition has resulted in reporting practices among Islamic financial institutions that remain largely formalistic and compliance-driven, failing to comprehensively reflect social accountability, transparency, contributions to sustainability, and the realisation of *maqasid al-shariah* in business operations. This finding aligns with scholarship highlighting a persistent gap between the ethical–normative identity of Islamic financial institutions and their operational realities—particularly the absence of substantive public participation, meaningful transparency, and ethical reporting systems that remain procedural rather than transformative (Haniffa & Hudaib, 2007; Ningsih et al., 2023). From a theoretical standpoint, this reinforces the longstanding critique that Islamic economics often replicates the structural framework of conventional finance without undertaking the paradigm-level reform aligned with Shariah objectives (El-Gamal, 2006). Consequently, efforts to reorient the system toward social justice, public welfare protection, equitable wealth distribution, and community empowerment have yet to be effectively institutionalised (Ahmad & Berghout, 2025; Chapra, 2008; Laldin, 2022; Rusydiana & Ali, 2022).

Non-contextual and symbolic policymaking risks creating a dissonance between religious symbolism and social reality, thereby weakening the capacity of Islamic economics to function as an instrument of equitable development (Sari et al., 2024). A holistic policy framework that integrates *maqasid al-shariah* with the Sustainable Development Goals (SDGs) is therefore essential—one that combines socio-economic sustainability, distributive justice, community participation, data-driven policy innovation, ethical and transparent governance, and risk management conducive to stability. Such a paradigm would shift Islamic economics from a symbolic and formalistic orientation toward a strategic public policy framework that is responsive to global dynamics and genuinely oriented toward inclusive and tangible human well-being.

Regional Disparities in the Implementation of Islamic Economics

The issue of regional disparities in the implementation of Islamic economics emerged with a thematic weight of approximately $\pm 55\%$, marking it as one of the most significant structural

challenges confronting Islamic financial systems in developing countries. These disparities manifest in uneven service quality, differential technological access, institutional capacity gaps, and the inequitable distribution of Islamic financial infrastructure between urban and rural areas, as well as between national economic hubs and peripheral regions. Islamic financial services remain heavily concentrated in major cities and economic centres characterised by stronger digital infrastructure, skilled human resources, and more established regulatory environments. Rural and underdeveloped areas, by contrast, continue to face restricted access, low Islamic financial literacy, and entrenched structural constraints. This pattern aligns with international industry reports documenting the concentration of Islamic financial assets in a small number of countries and global financial hubs (ICD-Refinitiv, 2022; ICD-LSEG, 2023; IFSB, 2023), as well as empirical evidence foregrounding inequality and financial exclusion within Islamic finance sectors across developing nations (Yakubu et al., 2025).

This spatial concentration indicates that the potential of Islamic economics has not been equitably distributed across all segments of society, particularly among communities in remote and less-developed regions. Such disparities not only reflect institutional limitations but also reveal that the Islamic financial system has yet to fulfil its mandate in promoting equity and social justice—core objectives of *maqasid* al-shariah. In the absence of a systematic redistribution strategy, the risk of a dual economy within the Islamic financial system becomes increasingly salient, whereby growth remains concentrated in specific regions and among higher-income groups. Targeted policy interventions are therefore required to promote the equitable development of institutional infrastructure, Islamic financial literacy, and digital finance capabilities—especially in rural and underserved areas. These efforts should be accompanied by innovative policy measures that expand public access to value-based Islamic financial services, encourage social investment through productive zakat and waqf initiatives, and strengthen centre–regional collaboration in building an inclusive and equitable Islamic economic ecosystem. Such strategies are vital to ensuring that Islamic economics serves as a genuine instrument of social transformation, rather than merely a driver of growth in already advanced regions.

Weak Integration Between Islamic Education and Islamic Economic Practice

The final major finding concerns the weak integration between Islamic educational institutions and the practice of Islamic economics, which emerged with a thematic weight of approximately $\pm 50\%$. This finding points to a significant disconnect between academia, Islamic educational institutions, and the Islamic finance industry in many developing countries—a discontinuity that has contributed to low curriculum relevance in Islamic economics education relative to the demands of the labour market and the evolving dynamics of the modern financial industry. Islamic economics curricula in many countries remain predominantly normative and theoretical, with an emphasis on classical *fiqh* and doctrinal content, while insufficiently engaging with contemporary issues such as digitalisation, financial innovation, sustainability, and public policy. As a result, graduates and professionals in the Islamic finance sector often lack the readiness to navigate the complexities of modern industry, particularly in the domains of digital finance and sustainable economic systems. Kasri et al. (2023) reinforce this finding by emphasising the importance of aligning *maqasid* al-shariah with the Sustainable Development Goals (SDGs) through integrated education and training policies. Similarly, the OIC Human

Capital Development Initiative has documented persistently low levels of human capital readiness for innovation in value-based Islamic finance, underscoring the urgency of educational reform that bridges the gap between theoretical knowledge and industry practice.

Wahyudi et al. (2025) further highlight that progress in Islamic economics across several countries—particularly in digitalisation and fintech—has not been accompanied by adequate academic preparedness. Many universities have yet to forge strategic partnerships with Islamic financial institutions or regulatory authorities, resulting in limited knowledge transfer and minimal exposure to industry practice. This gap carries significant implications for the development of competent, innovative, and *maqasid*-oriented human capital capable of responding to global market dynamics. To address this challenge, this study recommends fostering collaborative synergies among higher education institutions, regulators, and the Islamic finance industry—realised through industry-informed curriculum design, internship programmes, joint research initiatives, and professional training aligned with developments in financial technology and sustainability policy. Such an approach is essential to ensure that the growth of Islamic economics is not merely institutional but is also supported by high-quality, contextually aware, and globally competitive human resources who embody the principles of *maqasid al-shariah* in advancing an equitable and inclusive economic development framework (Ibrahim, 2018).

Discussion

The findings of this study affirm that Islamic economics in developing countries has experienced substantial progress, most notably within the Islamic financial sector—encompassing Islamic banking, sukuk markets, digital zakat mechanisms, and Shariah-compliant fintech (Ahmad & Berghout, 2025). Yet this progress is attended by significant structural and institutional challenges. The key findings collectively indicate that the success of Islamic economics is largely determined by institutional strength and the responsiveness of policy to contemporary socio-economic dynamics. This perspective extends institutional theory by demonstrating that the structure and quality of institutions constitute a critical foundation for the effectiveness of the Islamic economic system (Issa et al., 2021; Karbhari et al., 2021). More specifically, the study contributes to the existing literature by emphasising that institutional reform is a key catalyst for Islamic financial inclusion in middle-income countries—highlighting the importance of not only establishing formal institutions but also realigning values, norms, and institutional practices to meet the demands of the current era (Asutay, 2025).

The significant growth of Islamic finance confirms that innovations grounded in Islamic principles can compete effectively within the global economic system. This aligns with arguments advanced by Zuhri and Fadil (2024), who contend that instruments such as *sukuk* and digital zakat are not merely religious instruments but also inclusive socio-economic development tools. *Sukuk* in particular has evolved beyond its function as a Shariah-compliant financing alternative into a strategic investment portfolio component for developing countries, valued for its stability and ethical appeal (Ahmad & Berghout, 2025). Moreover, digital zakat and Shariah-compliant fintech have expanded financial service access to communities previously marginalised by formal financial systems (Irfan & Rusmita, 2023; Wahyudi et al., 2025). These findings enrich the financial inclusion discourse from the vantage point of *maqasid al-shariah*,

as elaborated by Dusuki and Abdullah (2007), demonstrating that Islamic finance can serve as a redistributive justice mechanism capable of reducing economic inequality through inclusive and socially just technological innovation.

Notwithstanding the acceleration observed in certain countries, the findings reveal that not all regions have experienced equal progress. Regional disparities and limited responsiveness to digitalisation expose a paradox between global aspirations and local realities. This condition underscores the importance of a glocal (global-local) approach in which national strategies are calibrated to the specific socio-cultural contexts of each region. In this regard, institutional adaptation theory is particularly pertinent; as Issa et al. (2021) argue, institutional effectiveness is determined by the capacity to adapt to structural and technological change. The findings consequently call for differentiated policymaking anchored in unique geographical and social conditions (Dzulkepli & Barom, 2021), particularly in developing countries where disparities between central and peripheral regions are pronounced. The implication is a need for decentralised Islamic economic policies capable of responding to local needs with greater sensitivity and adaptability.

The limited engagement with dialogical approaches in Islamic economic policymaking remains a key structural barrier to systemic reform. Resistance to cross-sectoral and interdisciplinary collaboration continues to impede the development of a participatory Islamic economic ecosystem. This finding supports arguments advanced by Arfah et al. (2020) and Ahmad and Berghout (2025), who assert that policy inclusiveness requires the active involvement of non-state actors—including local communities, civil society organisations, and the private sector. The absence of meaningful public participation not only undermines policy legitimacy but also generates a trust deficit between society and Islamic financial institutions. A paradigm shift in Islamic economic policymaking is therefore warranted—from top-down to bottom-up governance (Utami et al., 2024). This shift aligns with the Islamic principle of *shura* (deliberative consultation), which positions inclusive deliberation as a mechanism for procedural justice and social trust-building.

Islamic economic policies that are excessively normative and symbolic have proven inadequate in addressing contemporary socio-economic challenges. Policies that overemphasise metaphysical (*ukhrawi*) dimensions while neglecting sustainability and social responsibility are particularly susceptible to this critique, as noted by Haniffa and Hudaib (2007), who argue that Islamic financial reporting systems remain weak in substantively articulating social values. This study reinforces the importance of integrating *maqasid al-shariah* with the Sustainable Development Goals (SDGs), as emphasised by Ahmad and Berghout (2025). Islamic economics must therefore evolve from religious symbolism toward a more strategic and adaptive system that is responsive to contemporary challenges—including inequality, climate change, and social inclusion. Approached reflexively, Islamic economics should serve not merely as normative doctrine but as a living platform for social transformation.

The weak integration between Islamic economics education and institutional practice reflects a deeper epistemological gap between academia and the realities of industry. Islamic economics education, which remains largely normative in orientation, has struggled to produce human resources capable of navigating the dynamics of digitalisation and the complexities of global

policy (Alhammad et al., 2022). Sholeh (2023) underscores the need to redesign Islamic education curricula to render them more adaptive to labour market demands and technological developments. This study advocates for synergistic collaboration among universities, the Islamic finance sector, and policy authorities in constructing a collaborative, contextual, and future-oriented learning ecosystem. A transdisciplinary approach—one that unites scientific rigour, spiritual grounding, and pragmatic application—is essential for fostering a holistic transformation of Islamic economics, ensuring that institutional growth is matched by the development of human capital that is both globally competitive and deeply anchored in the values of *maqasid al-shariah*.

CONCLUSIONS

This study demonstrates that Islamic economics in developing countries has undergone substantial growth over the past decade, yet this progress remains deeply uneven across both geographical and sectoral dimensions. The thematic analysis identified eight interrelated determinants of Islamic economic development, of which institutional strength emerged as the most consequential. Countries that have cultivated adaptive regulatory frameworks, coherent Shariah governance structures, and well-integrated national policy strategies have achieved the most consistent and measurable acceleration in Islamic financial development. Beyond institutional capacity, the rapid expansion of Islamic finance—spanning Islamic banking, sukuk markets, digital zakat, and Shariah-compliant fintech—has underscored the structural maturation of the sector. At the same time, the study identifies persistent structural barriers: regional disparities in implementation, delayed responsiveness to digital transformation, fragmented and non-contextual policymaking, the absence of participatory and dialogical governance approaches, and a fundamental disconnect between Islamic economics education and the evolving demands of the global financial industry. Taken together, these findings illustrate that the transformation of Islamic economics cannot rest on normative or symbolic frameworks alone; it requires responsive institutional systems, evidence-based policies, and cross-sectoral collaboration grounded in the higher objectives of *maqasid al-shariah*.

The findings carry significant theoretical and practical implications for both scholarship and policymaking in Islamic economics. Theoretically, this study advances institutional theory by demonstrating that the quality, adaptiveness, and value-alignment of institutions—rather than their formal existence alone—are decisive in determining the effectiveness of the Islamic economic system. The study also enriches the discourse on Islamic moral economy by integrating it with adaptive public policy frameworks and the concept of *glocal* strategy, wherein national approaches are calibrated to local socio-cultural realities without forfeiting a broader global vision. The proposed integration of *maqasid al-shariah* with the Sustainable Development Goals (SDGs) offers a productive theoretical lens for addressing structural inequalities and economic exclusion in Muslim-majority societies. Practically, these insights carry direct relevance for regulators, policymakers, and institutional leaders. The findings underscore the urgency of reforming Islamic economics curricula to produce contextually aware and digitally competent human capital, of developing Shariah-compliant digital infrastructure, and of adopting inclusive, bottom-up policy design processes that reflect the principle of *shura*. For policymakers in developing nations, the comparative experiences of leading OIC member

states offer a strategic reference point for designing regulatory environments that are progressive, contextually sensitive, and genuinely oriented toward social inclusion and distributive justice.

This study is not without limitations, and these should be understood as productive openings for future inquiry. As a thematic analysis grounded in secondary literature and institutional reports, the research does not capture the micro-level lived experiences of industry practitioners, grassroots communities, or frontline policymakers operating within the Islamic economic system. The geographical scope of the reviewed literature further skews toward established Islamic finance markets, leaving OIC member states in Sub-Saharan Africa and Central Asia significantly underrepresented. Additionally, the qualitative and literature-based methodology, while appropriate for the study's exploratory objectives, does not fully illuminate the affective dimensions, political contingencies, or personal narratives of key change agents whose agency shapes institutional reform. Future research should address these gaps through ethnographic fieldwork, in-depth interviews with industry actors and community stakeholders, and longitudinal studies capable of tracing the transformational dynamics of Islamic economic development over time. A transdisciplinary research agenda that bridges economics, education, public policy, and digital studies would be particularly valuable in generating contextually grounded and policy-relevant knowledge. Such an agenda would enable future Islamic economics scholarship to move beyond descriptive mapping toward producing actionable insights that support socially just, inclusive, and sustainable development across the Muslim world.

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