

## The Sharia Economic Institution's History in Indonesia

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### Abstract

*The purpose of this research is to find out the history of thought and institutionalization of Islamic economics in Indonesia which is an economic system that is fair in ensuring the ongoing life of the state and society within the limits that are not detrimental to the public interest. This research uses literature review techniques or literature studies. The results of this study indicate the history of thought and institutionalization of Islamic economics in Indonesia through external factors, namely the establishment of Islamic banks in other countries and trade missions and da'wah that facilitate the application of the Islamic economic system. The internal factor is through public awareness, namely Muslim scholars Abdurra'uf al-Singkili during the royal period, and then emulated by modern economic practitioners to implement an Islamic-based economic system amid the majority Muslim population in Indonesia. Until now, Islamic economics has continued to develop with the existence of various regulations governing Islamic contracts/products and the institutionalization and systems managed by Islamic banks in Indonesia. However, the development of Islamic economic institutions is still not in line with Islamic financial literacy. Where people still have a very low understanding of Islamic economics.*

**Keywords:** Islamic Economics, History, institutionalization, Islamic Banks.

### Abstrak

Tujuan penelitian ini untuk mengetahui sejarah pemikiran dan pelebagaan ekonomi syariah di Indonesia yang merupakan suatu sistem ekonomi yang berkeadilan dalam menjamin berlangsungnya kehidupan bernegara dan bermasyarakat dalam batas-batas yang tidak merugikan kepentingan umum. Penelitian ini menggunakan teknik literature review atau studi kepustakaan. Hasil penelitian ini menunjukkan bahwa sejarah pemikiran dan pelebagaan ekonomi syariah di Indonesia melalui faktor eksternal yakni didirikannya bank-bank Islam di Negara-negara lain dan misi dagang serta dakwah yang memudahkan penerapan sistem ekonomi Islam. Faktor internalnya melalui kesadaran masyarakat yakni para cendekiawan muslim Abdurra'uf al-Singkili pada masa kerajaan dan kemudian dicontoh oleh praktisi ekonomi modern untuk menerapkan sistem ekonomi yang berbasis Islam ditengah mayoritas penduduk muslim di Indonesia. Hingga saat ini ekonomi syariah terus mengalami perkembangan dengan adanya berbagai aturan yang mengatur tentang akad/produk syariah dan pelebagaan serta sistem yang dikelola oleh bank Islam di Indonesia. Namun, perkembangan kelembagaan ekonomi syariah masih belum sejalan dengan literasi keuangan syariah. Dimana masyarakat masih memiliki pemahaman yang sangat rendah terhadap ekonomi syariah.

**Kata Kunci:** Ekonomi Islam, Sejarah, Pelebagaan, Bank Islam

## INTRODUCTION

According to what is known, economic theory dates back to Muslim academics. Numerous works in the area of economics were produced by Islamic leaders between the sixth and thirteenth centuries, according to records. Consider Baqr Sadr and Abu Yusuf, who lived between 731 and 798 AD. He established the tax laws' fundamental concepts, which, in the field of taxes, are now regarded as the law. Ibn Taiymiyah's (1263–1328 AD) explanation of market and price systems in his work Majmu' Fatawa serves as another illustration. At the time, thinking about economics was

frequently accompanied by ideas of justice, fairness, or appropriateness that had to be taken into account while building a society that was both just and equitable<sup>1</sup>.

As mandated by Pancasila and the 1945 Constitution of the Republic of Indonesia, the goal of national development is the creation of a just and prosperous society based on economic democracy by developing an equitable economic system. To achieve these goals, the implementation of economic development must pay more attention to harmony, harmony, and balance of elements of equitable development, economic growth, and national stability<sup>2</sup>. In addition, the national economic system must be developed about human rights which also includes economic rights for profit sharing, as well as the provision of people's welfare<sup>3</sup>. The profit-sharing system in the form of *parole/memaro* and others in agriculture, animal husbandry and so on which are widely known in several regions, especially on the island of Java, is one of the concrete evidence for the applicability or enactment of Islamic economic law in the archipelago long before the establishment of the Republic of Indonesia<sup>4</sup>.

The history of the development of modern Islamic economics began around the 1970s when the emergence of awareness of a more educated economic system in the West<sup>5</sup> and several other countries began to implement a centralized Islamic redistribution system program, namely *zakat*<sup>6</sup>. Islamic economics in the world gained momentum when the Islamic Development Bank (IDB) was established in 1976 in Jeddah. IDB was established after various important meetings of OIC countries that formulated the need for an alternative new economic system for member countries starting with the establishment of financial institutions with Islamic principles<sup>7</sup>. More than 60 countries through the Islamic Bank offer an interest-free system which is referred to as an alternative to the conventional banking model with its interest system<sup>8</sup>. Some parts of the world such as the Middle East, among others, established the Dubai Islamic Bank (1975), Faisal Islamic Bank of Sudan (1977), Faisal Islamic Bank of Egypt (1977), and Bahrain Islamic Bank (1979). In Asia-Pacific, the Philippine Amanah Bank was established in 1973 based on a presidential decree, and in Malaysia in 1983 the Muslim Pilgrims Savings Corporation was established to help those who wanted to save for the pilgrimage<sup>9</sup>. The IDB has also grown its membership from 22 countries to 44. IDB has successfully provided interest-free loans to its members, especially for infrastructure development in proportion to their capital participation. In the early stages, the financing model still uses the *ijarah* and *murabahah* systems<sup>10</sup>.

The development of Islamic economics in the form of the establishment of financial institutions such as banks has been requested by many people in the world, including the Indonesian government. The enthusiasm of the public and economist thinkers in Indonesia was influenced by the financial and banking crisis that had occurred in several parts of the world, giving rise to ideas and ideas to establish Islamic financial institutions that were able to maintain national financial

<sup>1</sup>Cahyono Bayu Aji, Muhammad Yafiz, and Sukiati, "Pemikiran Ekonomi Islam Indonesia (Studi Pemikiran Cendekiawan Muslim Indonesia Era Pra-Kemerdekaan-Orde Baru)," *Al Muamalat Jurnal Hukum Ekonomi Syariah* 2, no. 2 (2017): 35–51.

<sup>2</sup>Andrew Shandy Utama, "Sejarah Dan Perkembangan Regulasi Mengenai Perbankan Syariah Dalam Sistem Hukum Nasional Di Indonesia," *Jurnal Wawasan Yuridika* 2, no. 2 (2018): 187, <https://doi.org/10.25072/jwy.v2i2.180>.

<sup>3</sup>Fitrianur Syarif, "Perkembangan Hukum Ekonomi Syariah Di Indonesia," *Pleno Jure* 8, no. 2 (2019): 1–16, <https://doi.org/10.37541/plenjure.v8i2.38>.

<sup>4</sup>Eka Sakti Habibullah, "Hukum Ekonomi Syariah Dalam Tatanan Hukum Nasional," *Al-Mashlahah: Jurnal Hukum Islam Dan Pranata Sosial* 5, no. 9 (2017): 691–710.

<sup>5</sup>Ausaf Ahmad, *Instruments of Regulation and Control of Islamic Banks By The Central Banks* (Jeddah: Islamic Development Bank, 2000).

<sup>6</sup>Habibullah, "Hukum Ekonomi Syariah Dalam Tatanan Hukum Nasional."

<sup>7</sup>Dudi Badruzaman, "Ekonomi Islam Dan Politik Hukum Di Indonesia," *Akualita* 2, no. 2 (2019): 569–83.

<sup>8</sup>Habibullah, "Hukum Ekonomi Syariah Dalam Tatanan Hukum Nasional."

<sup>9</sup>Suryani, "Sistem Perbankan Islam Di Indonesia: Sejarah Dan Prospek Pengembangan," *Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah* 3, no. 1 (2012): 111, <https://doi.org/10.18326/muqtasid.v3i1.111-131>.

<sup>10</sup>Idwal, "Sejarah Perkembangan Lembaga Keuangan Syariah," *Jurnal Iqtishaduna* 9, no. 3 (2019): 12–42, [http://downloads.esri.com/archydro/archydro/Doc/Overview of Arc Hydro terrain preprocessing workflows.pdf](http://downloads.esri.com/archydro/archydro/Doc/Overview%20of%20Arc%20Hydro%20terrain%20preprocessing%20workflows.pdf) <https://doi.org/10.1016/j.jhydrol.2017.11.003> <http://sites.tufts.edu/gis/files/2013/11/Watershed-and-Drainage-Delineation-by-Pour-Point.pdf> [www](http://www).

conditions. Ideas and ideas from economist thinkers in Indonesia at that time were not accompanied by historical documentation<sup>11</sup>. In addition, the ideas and ideas did not necessarily emerge from the minds of Indonesian economists, after tracing it turns out that these economists traced the history of the existence of a profit-sharing-based economic system that had been carried out by previous scholars living in Indonesia. The system run by the previous scholars was identified as implementing justice for all parties and providing maslahat for the wider community referred to as the main principle of sharia. Therefore, the institutionalization of Sharia must implement provisions by staying away from the element of usury and implementing the principle of profit sharing and the sale and purchase system<sup>12</sup>.

The research on the history of Islamic financial institutions was researched by Idwal. In his research, he explained the history of Islamic financial institutionalization starting from the time of the Prophet Muhammad. until it developed in the dynastic era. At that time, practices such as receiving entrusted assets, lending money for consumption and business purposes, and making remittances, were common. The financial institutions that existed at the time of the Prophet were *baitul maal* and *wilayatul hisbah*<sup>13</sup>. This research has put forward the history of the institutionalization of Islamic finance but has not explained the history of Islamic economic institutions in the royal era and the era before independence in Indonesia.

Shandy also researched the history and development of Islamic banking regulations in Indonesia. In his research, he explained the history of the establishment of Islamic banks in Indonesia through fatwas and laws. However, the research he conducted has not historically found the figure behind the initiator of the establishment of Islamic banks in Indonesia<sup>14</sup>. For this reason, this research was conducted to trace the figure of the ulama who had implemented the Islamic economic system long before the establishment of the unitary state of the Republic of Indonesia.

Based on the description above, the authors are interested in conducting further research on the history of Islamic economic institutions in Indonesia based on the history of Islamic institutions that have emerged in various Islamic and non-Islamic countries. It is the hope of the authors in this study to obtain a clear and specific picture. In addition, this research also attempts to identify Islamic economic thought in Indonesia and how rules institutionalize Islamic economics in Indonesia to acquire an Islamic economic system that positively contributes to the growth of the Indonesian country.

## RESEARCH METHOD

This research uses literature review techniques or literature studies. A literature review is a report of research carried out on a particular problem<sup>15</sup> to describe to readers what will be known and not known to obtain the truth in the research idea<sup>16</sup>. Management of discussion material and library data collection through reading<sup>17</sup>, recording, and collecting it from various sources such as books, journals, documents, and the Internet<sup>18</sup>. Furthermore, the analysis stage uses the Miles and Huberman Model in the analysis implying how qualitative data analysis is carried out using interactive methods and continues until completion. The three processes of data reduction, data presentation, and conclusion drawing/verification are carried out as part of the management and results of data analysis.

<sup>11</sup>Badruzaman, "Ekonomi Islam Dan Politik Hukum Di Indonesia."

<sup>12</sup>Syarif, "Perkembangan Hukum Ekonomi Syariah Di Indonesia."

<sup>13</sup>Idwal, "Sejarah Perkembangan Lembaga Keuangan Syariah."

<sup>14</sup>Shandy Utama, "Sejarah Dan Perkembangan Regulasi Mengenai Perbankan Syariah Dalam Sistem Hukum Nasional Di Indonesia."

<sup>15</sup>Andrew S. Denney and Richard Tewksbury, "How to Write a Literature Review (2)," *Journal Of Criminal Justice Education* 24, no. 2 (2013): 7–11.

<sup>16</sup>Syahrudin Kadir, "Pengembangan Pengukuran Kinerja Dengan Pendekatan Masalah Score Card," *Ad-Deenar: Jurnal Ekonomi Dan Bisnis Islam* 3, no. 2 (2019): 149–72, <https://doi.org/10.30868/ad.v3i01.501>.

<sup>17</sup>Syahrudin Kadir, Muhammad Wahyuddin Abdullah, and Amiruddin Kadir, "Analisis Pengukuran Kinerja Dengan Pendekatan Masalah Scorecard," *Jurnal Minds: Manajemen Ide Dan Inspirasi* 6, no. 1 (2019): 53, <https://doi.org/10.24252/minds.v6i1.8108>.

<sup>18</sup>Nursalam, *Metode Penelitian: Pendekatan Praktis*, Salemba (Bandung, 2016).

## RESULT

### History of Islamic Economic Thought in Indonesia

The history of the development of the Islamic economy in Indonesia began with the arrival of Islam in Indonesia and with the founding of Islamic kingdoms throughout the archipelago. Islam spread in Sumatra in 1200 AD (597 Hijriyah) based on historical evidence, such as among the cemeteries of the rulers of Aceh there is the tomb of Al-Malik Kamil, who died on Sunday, 7 Jumadil, early 607 H (1210 AD) in Blang Mel village, Aceh. It can be claimed that when Islam reaches an area or territory, it is not only the practice of worship that becomes the way of life of its adherents but also features of muamalah such as economic activities at the individual, communal, and state levels <sup>19</sup>.

The Middle Eastern, Central Asian, and Andalusian kingdoms have all engaged in the practice of swapping taxes, which is what Islamic states do today. For instance, settlers who halted in Aceh during the reign of Iskandar Muda lamented the high cost of customs. This customs tariff policy is based on the religious affiliation of the individual; Christians pay very high customs rates for both entrance and exit, whilst Muslims do not pay export fees but are treated very severely when bringing in goods. Umar bin Khattab and subsequent al-Rashidun caliphs engaged in this practice, which was followed by the Islamic Daula-Daula in the future. Usyûr (customs) were enforced on three groups at varying rates during the reign of Caliph Umar: Muslims (2.5%), Dhimmi (5%), and Kafir Harbi (10%) <sup>20</sup>.

The intellectuals of the time introduced Islamic economic concepts as well as Islamic economic policies. A book called *Bustan Salâtin* was composed in 1638 by Nur al-Din al-Raniri at the request of Aceh's Sultan Iskandar Thani (1636–1641). The Alkharaj kit, which was written at Caliph Harun al-Rashid's behest, and this book can both be considered mirror sources for the prince. Building mosques was the most frequent topic of waqf by sultans, as is made evident in *Bustan Salâtin*'s second chapter (Prophets and Leaders) (Raniri, 2004). Another is Shaykh Abdul Ra'uf al-Singkili's '*Mirât al-Thullâb*,' which is a historical book of Islamic economic thinking in the genre of mirrors for the prince.

Abdurrauf stated in his prologue that the work was written at the sultanah Tajul Alam Saiatuddin Syah's (1641–1675) request to produce a book of jurisprudence from the Shafi'i school of thinking. After living in the Middle East for approximately twenty years ("because I spent a long time as a student at Yemen, Mecca, and Medina"), he had lost his command of the Malay language and needed the help of two aides ("my two comrades, very pious and respectable, and fluent in written Malay"). The book is divided into 71 paragraphs, half of which are about business transactions (law of muamalah), the other half about crime (law of jinayat), and the remainder on miscellaneous subjects, such as inheritance law (law of afraid). The paragraphs are numbered in the edition but not in the original text. The earliest Malay mu'amalah text, published by al-Singkili, fully explains the laws of transactions in Islam <sup>21</sup>. The definition of *al-Bai'* (buying and selling), which is the exchange of one thing for another (trade), is one of 35 Muamalat discussions in *Mir'ât al-Thullâb* that Othman, et al. (2019) found. The law of the origin of trading is required, and to legalize buying and selling affairs, one must adhere to the pillars of sale purchase, terms of consent, and qabul, as well as terms.

When Islamic Daula like the Ottoman, Safavid, and Mughal Turks were in power in the 16th century, a lot of literature relating to Islamic economic ideas emerged <sup>22</sup>. It is crucial to understand how Islamic economic policies and practices were implemented in Indonesia and other Islamic kingdoms in the archipelago, as well as some of the academics' opinions during the time. However, the principles of Islamic economics are connected to the thinking of Islamic thinkers, particularly Abdurra'uf al-Singkili, who wrote the book "*Mir'âtu alThullab*." The Abdurra'uf al-Singkili family

<sup>19</sup>Abdul Qoyum et al., *Sejarah Pemikiran Ekonomi Islam*, 2021.

<sup>20</sup>Qoyum et al.

<sup>21</sup>Henri Chamber Loir, "The History of A History: The Variant Versions of The Sulalat Al-Salatin," *In Defence of History* 33, no. 1 (2000): 1091–1112.

<sup>22</sup>Shahrul Hilmi Othman et al., "Aspek Muamalat Dalam Kitab Mir'At Al-Tullab Karya Shaykh Abdul Rauf Ali Al-Singkili," *Jurnal Ulwan* 4, no. November 2018 (2019): 1–13.

is said to have originated in Persia or Arabia and arrived in Singkil, Aceh, around the end of the 13th century. Abdurrauf already has a reasonably solid religious basis in terms of his schooling. He only traveled to Arab countries in or around 1642. His departure on the pilgrimage in Arab countries. Abdurrauf spent time in Arabia studying with a variety of renowned professors, academics, and mystics at Jeddah, Mecca, Medina, Mokha, Baitu al-Faqih, among other locations.

Abdurrauf's spiritual guide in Medina, Sheikh Shafiuddin Ahmad Al-Dajjani Al-Qusyairi, may be regarded as having the strongest effect on him. Abdurrauf obtained from him a *khirqah* and a certificate authorizing him to lead the *Syaththariyyah* and *Qadiriyyah Thariqat*. In addition to being a *Tasawuf* scholar, Abdurrauf was an authority in a variety of scientific disciplines, including interpretation, *fiqh*, and *hadith*. Abdurrauf's scientific outlook, which focused on the intersection of *Shari'a* and *Sufism*, was significantly affected by the merger of these two disciplines of knowledge. Around 1083 H/1662 AD, when he is thought to have returned to Aceh, he created the *Syattariah* system he had learned and imparted it to his pupils, who arrived from all areas of the archipelago. Numerous pupils from Aceh and other islands in the archipelago studied with him. Syekh Burhanuddin Ulakan from Pariaman, West Sumatra, and Syekh Abdul Muhyi Pamijahan from Tasikmalaya, West Java, were two intellectuals who rose to prominence. Abdurrauf finally received the position of *Qadi Malik al-'Addil*, who was in charge of overseeing religious issues, since Sultanah Safiyyatudin, who was then in charge of the Sultanate of Aceh, found Abdurrauf's mentality to be appealing. After Abdurrauf al-Singkili passed away, his pupils traveled to other islands in the archipelago and carried on his teachings.

After reading the book *Mir'âtu ath-Thullab*, it was discovered that using god to purchase and sell things is deemed usury. As stated in the following manuscript:

Figure 1. The Book of *Mir'âtu ath-Thullab* Abdurra'uf al-Singkili's Original Manuscript



Data Source: Darmawan, 2020.

*Faidah*: That forcing someone to sell *ribawi* items alongside *ribawi* items is unlawful. even if the *Najmu al-Wahhab* text mentions that the circumstances are overblown. Specifically, whatever is due by each of the two persons shall constitute his *taulan*. After that, each of the two of them will release it as his beneficiary or give it to each other, with the treasure going to the recipient in each case. Therefore, even though there is no need for the job to be *makruh*, that must be permissible. Therefore, if it is stated that I owe you the same amount as this dirham on the condition that you owe me the same amount as a pot of gold, as he claimed, then this contract is void<sup>23</sup>.

The viewpoints of the traditional scholars Sheikh Zakaria Al Anshori, Ibn Hajar Al Haitami, and Syamsudin al-Romli are presented in the *muamalah* book *Mir'âtu ath-Thullâb* in a *Shafi'i* *fiqh* manner. The topic of *muamalah* is the main focus of *Mir'âtu ath-Thullâb*, which has its

<sup>23</sup>Bayu Mukti Darmawan, "Pascasarjana Universitas Islam Negeri ( Uin ) Antasari Hukum Ekonomi Syariah Banjarmasin" (2020).

distinctiveness due to the question-and-answer format. This approach is a useful and simple way to comprehend Islamic studies. The Book of Mir'âtu ath-Thullâb, which uses the Malay language as its distinctive feature and serves as a solid foundation for the future development of muamalah fiqh studies, is crucial for muamalah law in Indonesia in particular. This scientific legacy is very open to accepting development. According to the requirements of the moment and evolving social situations, by adhering to the standards of Islamic law and religion that have been endorsed by earlier scholars.

### ***History of the Institutionalization of Islamic Economics and Islamic Banks in Indonesia***

The several motivating elements stated above are inextricably linked to the growth of the Islamic economy in Indonesia. These elements may be divided into internal and external components, to put it simply. Causes that originate outside the country include the growth of the Islamic economy there. This understanding was "spread" to other nations before arriving in Indonesia. In the meantime, the internal aspect is Indonesia's projected future as the nation with the world's biggest Muslim population. This reality makes certain academics and business professionals more conscious of the necessity for Indonesia's Muslim communities to operate an economy in line with Islamic principles <sup>24</sup>.

Abdullah Saeed stated that there were at least three main factors for the emergence of Islamic banks, namely: (1) the emergence of neo-revivalist groups who stated that bank interest was usury; (2) the abundance of oil in the Gulf countries, which had implications for increasing the prosperity of countries in the surrounding areas; and (3) the adaptations made by several countries to the traditional concept of usury <sup>25</sup>. In general, the stages of the growth and development of the Islamic finance sector throughout the globe may be summarized as follows: 1. The 1970s: in the form of the development of Islamic banking institutions in the form of commercial sharia banks, in the form of commercial banking products, with coverage area remaining in the Middle East region (Gulf/ME). 2. The decade of the 1980s: in the form of the development of commercial Islamic banks as well as Islamic insurance and investment firms (commercial Islamic banks, takaful (Islamic insurance), and sharia investment companies). while its offerings include insurance as well as Islamic financial syndication. The area already spans Asia Pacific <sup>26</sup>.

The concept of establishing an Islamic bank in Indonesia first came to K.H. Mas Mansur in 1937, when he was Chairman of the Muhammadiyah Board. However, it was abandoned at the time due to concerns that it would undermine national stability. In 1968, the Muhammadiyah Tarjih Council made decisions about bank interest paid by state banks to clients and vice versa at the Mukhtar in Sidoarjo, East Java. As a result, the community must exercise caution while handling matters that are in question, according to the hadith's rule. K.H. Azhar Basjir, then-Chairman of the Tarjih Muhammadiyah Council, made it clear that when deciding the law on bank interest, one must take into account the amount of the interest or the profit of the person who receives it and for what purpose the profit is used to uphold the precautionary principle that applies to this interest. A national seminar on Indonesia's links with the Middle East was conducted in 1970, and the Institute for the Study of Social Sciences (LSIK) and the Bhineka Tunggal Ika Foundation sponsored an international seminar in 1976. It was discovered after an extensive investigation that there were challenges, including the lack of a legal framework for the establishment of a bank without interest or profit sharing since it did not conform to the then-current Law Number 14 of 1968 regarding banking principles. The advent of Islamic banks, which some parties believe to be connected to ideological elements that are part of the notion of an Islamic state, is still another barrier.

When the government released the October Policy Package (PAKTO), which included the deregulation of the banking sector in Indonesia, the concept of Islamic banking reappeared in the

<sup>24</sup>Mei Santi, "Perkembangan Ekonomi Syariah Di Indonesia," *Jurnal Eksyar (Jurnal Ekonomi Syariah)* 07, no. 01 (2019): 47–56, <http://ejournal.staim-tulungagung.ac.id/index.php/Eksyar>.

<sup>25</sup>Abdullah Saeed, *Islamic Banking and Interest: A Study of the Prohibition of Riba And Its Contemporary Interpretation*, *Journal of King Abdulaziz University-Islamic Economics* (Jeddah: Leiden, 1996), <https://doi.org/10.4197/islec.17-2.8>.

<sup>26</sup>Badruzaman, "Ekonomi Islam Dan Politik Hukum Di Indonesia."

1980s. The growth of Islamic banks in Islamic nations has influenced the creation of the Islamic economy in Indonesia. Discussions regarding Islamic banking as a foundational element of the Islamic economy started in the early 1980s. When the government released the October Policy Package (PAKTO) in the 1980s, which included the deregulation of the financial sector, the concept of Islamic banking reappeared. Karnaen A. Perwataatmadja, M. Dawam Rahardjo, A.M. Saefuddin, M. Amien Azis, and other individuals were participants in the study. Several attempts on a small scale have been realized. Baitul Tamwil-Salman in Bandung is one of them and has had tremendous growth. A cooperative with a similar structure was established in Jakarta, called the Ridho Gusti Cooperative. But it wasn't until 1990 that a more focused effort to form an Islamic bank in Indonesia was made. The Indonesian banking sector

The growth of Islamic banks in Islamic nations has influenced the creation of the Islamic economy in Indonesia. The growth of Islamic banks in Islamic nations has influenced the creation of the Islamic economy in Indonesia. Discussions regarding Islamic banking as a foundational element of the Islamic economy started in the early 1980s.

Karnaen A. Perwataatmadja, a pioneer of Islamic banking in Indonesia, was a career official in the Ministry of Finance of the Republic of Indonesia and one of the historical figures responsible for the establishment of Bank Muamalat, the country's first Islamic bank. In the years 1988–1992, as well as 1997–2001, Karnaen held the position of Executive Director at the Islamic Development Bank (IDB). He then had positions on the boards of directors of National Refinery Ltd. in Karachi, Pakistan, and Ikhlas Finance in Istanbul, Turkey. He also helped start several sharia microfinance organizations in Indonesia, including BPRS and BMT. At first, we discovered under the Banking Act that a bank may be established without charging interest. Then, Karnaen met Mr. Mohammad Natsir, a personality and leader in Islam. Pak Natsir is a fervent supporter and proponent of the founding of an Islamic bank. A person having connections to and a network of collaboration with the Islamic world was known as the previous prime minister, who at the time held the position of Deputy President of the Islamic Alam Mukhtar. Karnaen then traveled to Jeddah, Saudi Arabia, to meet with IDB President Ahmed Mohammad Ali to seek assistance and other things.

Without the approval of President Soeharto, no strategic choice could be made during the New Order era. As a result, Pak Harto has to be contacted. His sons and daughters and his aides, in this case, the ministers, were the two routes via which the approach was made. Senior banker and former Director of Bank Indonesia, I. Nyoman Moena, made contact through Pak Harto's sons. While a panel from the Indonesian Ulema Council (MUI) oversees the ministerial path. It was explained to politicians, including Minister of State Secretary Moerdiono, that the notion of establishing an Islamic bank was not novel and had been used in Indonesian agricultural culture for some time. The MUI Workshop on "Bank and Banking Interest" was not held in Cisarua Bogor on August 18–20, 1990, until after the meeting between the MUI team and President Soeharto. The MUI Workshop on Bank Interest in Cisarua is regarded as a historic occasion that helped to establish Indonesia's first Islamic bank, putting into practice the suggestions made during the ulema workshop on banks and banking interest held in Cisarua, Bogor, on August 19–22, 1990. At the Fourth National Conference of the National Ulama Council (MUI), which was held at the Sahid Jaya Hotel in Jakarta from August 22–25, 1990, the workshop's findings were covered in further detail. To develop Islamic banks in Indonesia, a working committee was established based on the directives of the MUI National Conference. PT. Bank Muamalah Indonesia was created as a consequence of the group's efforts<sup>27</sup>.

Pak Harto stopped inquiring about what an Islamic bank was during the MUI discussion with President Suharto. He said, "Do the ulema already have the funds to establish a bank?" Karnaen recounts. MUI's chairman, K.H. Hasan Basri, answered at that point, "If we don't have money, sir, what we have is prayer." A loan of IDR 3 billion from the Pancasila Muslim Amal Bakti Foundation (YAMP) was needed to start an Islamic bank, and Pak Harto said on the spot that he was willing to contribute to that cause. Then, to generate money for the bank's founding, President Soeharto organized a fundraising event in the Bogor Palace. Around IDR 60 billion in taxes were

<sup>27</sup>Syaakir Sofyan, "Perkembangan Perbankan Syariah Di Indonesia," *Bilancia* 10, no. 2 (2016): 91–112.

collected during that period. This sum exceeds the founding capital requirements at the time of starting a bank. The MUI requested Pak Harto for the name of the bank that had a profit-sharing structure and no interest when they next convened. The President received two name recommendations from MUI Chairman K.H. Hasan Basri: (1) Bank Muamalat and (2) Bank Muamalat Islam. Is the concept of Islam included when Pak Harto pronounces "muamalat" as "mualamat" because he is still learning how to do so? The name "Bank Muamalat" was chosen by Pak Harto since the response was that it was covered.

The founding date of Bank Muamalat is 24 Rabiul Tsani 1412 H, or November 1, 1992. Its activities began on 27 Shawwal 1412 H, or 1 May 1992. As an early proponent of Islamic banking in Indonesia, Bank Muamalat was present. Karnaen A. Perwataatmadja assisted in the administration and regulation of the establishment of this first Islamic bank, along with several first-generation Islamic economists, including Amin Aziz (late), Amir Rajab Batubara (late), and Zainulbahar Noor. The adoption of Law No. 10 of 1998 catalyzed the growth of Islamic banking throughout the reform era. The legal foundation and kinds of businesses that can be conducted and carried out by Islamic banks are specifically controlled under this Act. The legislation also specifies how normal banks are to establish Sharia branches or perhaps fully transform into Sharia banks. However, due to the Islamic banking industry's accelerated growth, legal regulation is now required. The relevant Law Number 21 of 2008 Concerning Islamic Banking has been ratified and published.

## CONCLUSION

The development of the Islamic economic system in Indonesia is consistent with the process of introducing and expanding Islamic sharia in Indonesia, as is seen by tracing the history of Islam. The social, cultural, and religious practices embraced by Indonesian society have a significant positive impact on the country's efforts to adopt and promote the Islamic economic system. Da'wah substantially aided Indonesia's adoption and use of the Islamic economic system when Islam visited the country on a commercial mission. In Indonesia, the growth of the Islamic economy cannot be separated from several motivating forces. These elements may be divided into internal and external components, to put it simply. Causes that originate outside the country include the growth of the Islamic economy there. This understanding was "spread" to other nations before arriving in Indonesia. While the internal element is the fact that Indonesia was taken hostage to become the nation with the greatest Muslim population in the world, Abdurra'uf al-Singkili, whose work includes the book "*Mir'âtu alThullab*," is one of the catalysts for change in the archipelago. This reality makes certain academics and business professionals more conscious of the necessity for Indonesia's Muslim communities to operate an economy that adheres to Islamic principles.

In terms of the growth of the number of banks, offices, and assets in Indonesia's Islamic economy, development has grown, but the rate of advancement has slowed. Government support of Islamic banking and participation from stakeholders, particularly academics, are required to solve this issue. Additionally, consolidation from Sharia banking is required to assess and react to shifting economic events. Additionally, it is intended that an extensive study on the growth of Islamic banking in terms of financing, funding, and Islamic banking services be conducted.

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