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Participatory And Social Financing From The Perspective Of Islamic Moral Economy

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Abstrak

Penelitian ini menggali titik temu antara partisipasi dan pembiayaan social dalam kerangka Ekonomi Moral Islam (EMI). Studi ini menginvestigasi sifat instrument keuangan Islam partisipatif dan kolaboratif serta kesesuaian mereka dengan prinsip-prinsip EMI. Penelitian ini juga mengeksplorasi konsep keuangan sosial Islam dan hubungannya dengan gagasan kesejahteraan dalam konteks EMI. Selain itu, kajian ini menguji pendekatan kontemporer terhadap adaptasi institusional dalam keuangan Islam, dengan fokus pada bagaimana pendekatan-pendekatan ini mengintegrasikan prinsip-prinsip partisipasi dan pembiayaan sosial. Metodologi kualitatif digunakan dengan melakukan tinjauan literatur yang ketat dan analisis mendalam untuk memahami praktik dan implementasi institusi keuangan Islam di Indonesia. Temuan penelitian ini memberikan pemahaman tentang signifikansi kerangka Ekonomi Moral Islam dalam praktik keuangan Islam dan potensinya untuk mempromosikan inklusi keuangan dan kesejahteraan social guna mengembangkan model keuangan yang berfokus pada nilai-nilai moral dan masyarakat.

Kata Kunci: Ekonomi Moral Islam, *Mudharabah-Musyarakah*, Zakat-Awqaf

Abstract

This research explores the intersection of participatory and social financing within the framework of Islamic Moral Economy (IME). The study delves into the nature of participatory and collaborative Islamic finance instruments and their alignment with the principles of IME. It also investigates the concept of Islamic social finance and its relationship with the idea of welfare in the context of IME. The paper further examines contemporary approaches to institutional adaptation in Islamic finance, focusing on how these approaches integrate participatory and social financing principles. Qualitative methodology By employing a rigorous literature review and in-depth analysis is utilized to gain insights into the practices and implementations of Islamic financial institutions in Indonesia. The findings shed light on the significance of the framework of Islamic Moral Economy in Islamic financial practices and its potential for promoting financial inclusion and socio-economic welfare to develop moral and community-centered financial models

Keywords: Islamic Moral Economy, Mudharabah-Musharakah, Zakat-Awqaf

Introduction

The objectives of Islamic economics play a pivotal role in guiding not only the overarching objectives of economics as a whole but also the specific objectives of Islamic banking, all under the auspices of the Maqasid. As expounded by (Chapra, 1979), he accentuated four crucial aspects within the Shariah framework that derive from the Maqasid, pertaining to the essential goals of Islamic economics. These four tenets encompass the attainment of Islamic economic norms rooted in the principles of Islam, the promotion of universal brotherhood, the realization of equitable income distribution, and the facilitation of individual freedom, all of which harmoniously intertwine within the context of economics, ultimately emerging from a profound commitment to social welfare. These profound objectives serve as the guiding moral compass that drives Islamic economics towards achieving justice, fairness, and the well-being of society at large.The objective of Islamic economics defined as promoting human and social-well being (Chapra, 2001, p. 50) is thrived through the aspired participatory financing which encourages justice and equality (Asutay & Harningtyas, 2015). Aside from that, to achieve social justice Islamic social finance with zakat and awqaf institution is utilized to support distribution of wealth in society (Nik Azman, Masron, & Ibrahim, 2021). From this aspirational perspective, ideally Islamic finance in its endeavor to achieve the virtue objectives of Islamic finance operates within two aspect of financing, Profit and Loss Sharing (PLS) instruments for business purposes and Islamic social justice for channeling distribution of wealth among society.

However, both initially intended modes of financing are not apparent in the overall reality of Islamic finance sphere. In banking sector as one the core contemporary finance institutions, PLS is deemed the most insignificant instruments for Islamic banking (Jatmiko, Iqbal, & Ebrahim, 2023). Meanwhile, new institutional paradigm in post-colonial era, organizations of zakat management face modern agenfication theory impact on its operation. This is observed for instance in Baitul Mal Aceh, Indonesia, when Weberian bureaucracy it adopted fails to deal with crucial issue of disbursement resulting in IDR 120 million held undistributed for six years due to its high dependence on structural mechanism. This less independency in management leads to the underperformance of Baitul Mal in its goal to distribute wealth in society. Hence, despite its highly expected existence, Baitul Mal fails to bring Aceh out among the high ranked-listed province in poverty in Indonesia (Fuady, 2021, p. 119).

The practice of Islamic finance exhibits several shortcomings when viewed in light of the objectives envisaged by the maqasid of Sharia economics. This disparity becomes evident in the realm of Islamic commercial finance, which tends to favor debt-based financing mechanisms over Profit and Loss Sharing (PLS) financing (Jatmiko et al., 2023). This gap is attributed to the strong influence of the neoclassical economic approach in Sharia financial practices (Chapra, 2014, 2017) and the absence of a Sharia economic framework that can effectively align with the envisioned objectives of Sharia economics.

On the other hand, in the realm of Islamic social finance, issues related to management are observed, particularly concerning the agency theory. As a nation that emerged from colonialism only seven decades ago, the influence of colonial institutional legacy remains potent (Seidler, 2011, p. 26). This is manifested in the management of zakat revenue by the State, as seen in Aceh, which adopts a centralistic Weberian bureaucracy approach.

To address these concerns, this study aims to examine whether participatory financing can be more effective when approached from the perspective of Islamic moral economy, and to what extent participatory financing aligns with the framework of Islamic moral economy. Furthermore, this study will explore how the notion of embeddedness takes shape within the institutionalization of Islamic social finance. From the standpoint of Islamic moral economics, the inquiry also investigates whether this notion of embeddedness is influenced by the institutional legacy of colonialism.

From the issues emerged above, this essay aims to examine participatory or PLS financing and Islamic social finance in Islamic finance realm within the framework of Islamic moral economy. In achieving the objective, this essay firstly discusses conformity and congruence of the nature of participatory or PLS financing with the framework of Islamic moral economy. Subsequently, discourse on Islamic social finance is presented in a sense that its failure of contemporary practices lies down at institutional and governance issues in spite of the nature of social characteristic attached. It also looks at disruptive and collaborative business models functioning as an element of the sharing economy, as well as disruptive and community-orientated financing designs in Islamic finance as a response to Islamic banking's unsatisfactory performance. Further, the integration of Islamic social finance with commercial finance and influence of technology advances on innovative financing design are weighed up with institutional approach. Lastly, this essay is summarized with highlighted concluding remarks.

Literature Review

The concept of a participatory economy is designed to promote several key principles. Firstly, it emphasizes economic fairness and equity, where individuals are compensated proportionally to their contributions or efforts. Secondly, it advocates for economic democracy, granting individuals decision-making power based on the extent to which a decision affects them. Thirdly, it emphasizes solidarity, which involves considering the well-being of others. Importantly, these principles are intended to be achieved while maintaining economic efficiency and accommodating a variety of economic value systems. This approach seeks to create a system that balances fairness, democratic decision-making, solidarity, and economic effectiveness (Albert, Hahnel, Kotz, M., & O'Neill, 2002). Botsman and Rogers (2010), as cited by (Selloni, 2017, p. 56), describe the collaborative economy as an economic system that is structured around distributed networks of interconnected individuals and communities, as opposed to centralized institutions. This transformative model fundamentally changes the way we engage in activities such as production, consumption, financing, and learning. By leveraging the power of connectivity and collaboration, the collaborative economy reimagines traditional economic processes and enables new forms of decentralized participation and interaction among individuals and communities

In an ideal scenario, the economic framework advocated by Shariah promotes a mechanism that ensures equitable distribution, discourages disproportionate property rights, and prevents the exploitation of individuals' rights (Sadique, 2012: 1). As a result, the establishment of genuine equity financing modes that employ profit and loss sharing (PLS) has been a crucial objective in the development of Islamic financial institutions (IFIs). However, IFIs, particularly Islamic banks (IBs), have shown a preference for debt-based instruments over PLS schemes, primarily due to the characteristics of the financial intermediary banking model they have adopted. Despite the lawful acceptability of debt-based transactions, the current practice of heavily relying on such instruments does not align with the ideals of the Islamic economic paradigm.

The desired model advocated by Islam emphasizes the principle of risk-sharing in profit and loss sharing (PLS) financing contracts. Risk-sharing entails the sharing of rights and obligations arising from real economic activities. The participatory and collective nature of Islamic finance is rooted in the fundamental principles of tawhid (the oneness and sovereignty of God), which entails the equality of individuals before God. It also recognizes human free will (ikhtiyar) and the duty (fard) bestowed upon them as God's vicegerents (khalifah) to maintain socio-economic justice (al-'adlwa'l-ihsan) within communities through processes of purifying (tazkiyah) and righteousness (ihsan) (Asutay, 2007). Hence, participatory financing model within the framework of Islamic moral economy is more transcendental.

Aligned with these principles, Islamic finance aims to foster participation and collaboration, inspiring individuals to engage in embeddedness, leading to productive financial inclusion, real economic activities, and social justice. By adopting community-based foundations, Islamic finance endeavors to develop community members as

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stakeholders who actively participate in society while fulfilling their own set of responsibilities. Throughout history, these types of financing have proven to be effective in meeting the social goals of Islamic economics when implemented within a community-oriented framework.

The participatory and collaborative nature of Islamic finance is represented by several Islamic financing instruments. These instruments promote shared participation and distribution of profits among the involved parties. Four key instruments can be identified:

(i) Mudarabah: Also known as profit sharing, mudarabah involves a partnership in which one party provides capital (rabbulmaal), while the other party (mudarib) contributes labor or expertise (Sapuan, 2016). Profits are divided between the parties according to an agreed-upon ratio, while losses are borne by the capital provider. In the event of a loss, the mudarib may lose their share of the profit and potentially their position.

(ii) Musharakah: Musharakah refers to collaboration or partnership, which can involve both asset-based and non-asset-based arrangements. In a musharakah partnership, the partners contribute capital and share in the profits and losses based on their respective shares (Sarpini, 2019). Management fees may also be allocated based on agreed-upon terms. When one party operates the business on behalf of all partners, they may bear the management fees in addition to their profit share.

(iii) Muzaraah: Muzaraah is similar to mudarabah and is specifically applied in the agricultural sector. It involves a partnership between the landowner and the farmer, where the farmer cultivates and tends to the land. The produce is shared between the landowner and the farmer according to an agreed-upon ratio (Al-Syarbini, 1997; as quoted by (Shafiai & Moi, 2015).

(iv) Musaqah: Musaqah is a contract between a landowner and a farmer, primarily related to the cultivation and care of trees. The farmer is responsible for treating, servicing, irrigating, and managing the trees, and the resulting crop is shared between the landowner and the farmer based on agreed-upon terms (Al-Syarbini, 1997; as quoted by (Shafiai & Moi, 2015).

These financing instruments reflect the participatory and collaborative nature of Islamic finance, enabling shared risks and rewards among the involved parties.

Methods

This study employs a qualitative approach with the descriptive-analytic technique (Nasir & Sukmawati, 2023). The phenomenon of Islamic commercial finance marginalizing the role of participatory financing and the institutionalization of Islamic social finance will be described and subsequently analyzed from the perspective of Islamic moral economics. Furthermore, testing will be conducted to derive insights and solutions to the issues raised in this discourse.

Discussion

The emergence of sharing economy industries has disrupted traditional business practices in various sectors (Muñoz & Cohen, 2017). This trend has gained popularity due to its association with entrepreneurship, creativity, technology, and effective management. Sharing economy startups, such as Uber and Airbnb, have harnessed the power of information technology to facilitate cooperation between strangers. One key question arises: Why would individuals be willing to participate in a business operation with strangers, where trust plays a crucial role in determining the success of the company?

One crucial factor in a business chain has been replaced by technology: trust. “As technology plays a larger role in society, people's trust in others is eroding at a time when we really need it” (Ellis & Coughlin, 2014). In addition, (Sundararajan, 2016, p. 7)) coined the word "crowd-based capitalism" to describe the disruptively emerging market, which changes business rules from labor forces to regulatory structures (Arthurs, 2018; Tucker, 2018; Valverde, 2018). The phenomenon does not lead disrupt modes of business but also its psychological and motivational approaches.

Can the promotion of shared economy businesses effectively address the challenge posed by the trust issue, provided that technological advancements enable its mitigation? In Indonesia, the unique concept of "gotong-royong" (collective collaboration and social unity) has played a significant role in shaping the country's constitution, which emphasizes the centralization of the economy around its people.

The question arises whether the advancement and promotion of shared economy businesses can provide a viable solution to the trust issue when supported by technological innovations that enhance trust-building mechanisms. In the Indonesian context, the distinct cultural philosophy of "gotong-royong" has exerted a profound influence on the nation's constitution, underscoring the primacy of a people-centric economy in the post-independence era.

The practice observed among boat drivers plying the Mahakam River, which connects Kota Bangun and Samarinda in East Kalimantan, exemplifies the dynamics of a

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reciprocity-based economy. In this scenario, boat drivers ferry passengers to Samarinda, but it is understood that they must hand over the passengers to taxi drivers who will complete the journey to their final destination. The underlying principle of reciprocity among individuals provides a justification for such collaborative behavior (Mubyarto, 2003).

In the context of this discourse, the mudharabah financing system, widely utilized in various Indonesian communities, emerges as a viable solution to address the issue of trust. This is primarily due to the reciprocity principle embedded within the system itself, as well as its reliance on community-based practices. By operating within a communal framework, the mudharabah financing system engenders a sense of trust and cooperation among participants, facilitating mutually beneficial outcomes

Within the framework of moral economy, the modes of financing, particularly mudarabah, are widely acknowledged for their participatory and collaborative nature. It is worth noting that these financing methods are not exclusive to the Muslim community in Indonesia, as they are also practiced by non-Muslim communities (Damanhur & Khaddafi, 2013). However, the widely mainstreaming practices of the principles underlying these financing modes had historical roots and were even recognized by medieval Europeans during their business interactions with Arab counterparts as identified before.

The participatory and collaborative essence of mudarabah can be further enhanced through the utilization of cooperative institutions, which operate on a community basis. By embracing cooperative principles, these institutions have the potential to make significant contributions to financial inclusion, ultimately addressing poverty within society

In regards with Islamic financial institution, revitalization of organically endogenous social Islamic financial institutions is attempted, especially zakat and awqaf. One of the methods for satisfying the principle objective of Islamic economics in order to accomplish the upright objective of social equity is institutionalization of zakah and wakaf(Asutay, 2007). However, the role of zakat and awqaf as endogenous Islamic financial instituions to bring the objective of social justice is history contended by some scholars. In comparison to the counter argument of zakah role in alleviating poverty, the respective claim will be examined to the extent of historical precedent necessary and that of its recently empirical practice.

Zakah is an Islamic economic institution that stems from Islamic principles, establishing a connection between individuals and society (Naqvi, 1994, p. 21). It is considered fard (obligatory) as a manifestation of the belief in the lordship of God (rububiyah), purification of wealth (tazkiyah), and individual accountability before God. This concept forms the micro-foundations of Islamic economics, emphasizing that individuals should utilize their income in accordance with the moral norms revealed by God, who is recognized and acknowledged as the ultimate owner of wealth. Thus, he/she acts as a trustee of God to promote and implement *adl* to bring equal opportunities for all individuals in the society (Asutay, 2007, p. 10). The objective of this institution as addressed by words of God is to assure that " so that it may not circulate between the wealthy among you" (QS: 59:7). In brief idea, zakah is seen as the obliged proportion of the earnings one must pay for the benefit of the impoverished individual. It is mostly favourable in Islamic perspective that zakah distribution is grounded on the objective of assuring the poor can earn a living for themselves (Chapra, 1979, p. 18, 1993, pp. 82–83). The second caliph, Omar, even exclaimed that everyone in the state has equal right of community wealth, Baitul Mal (Haykal, 1964, p.233 as cited in (Chapra, 1993, p. 18).

However, (Chapra, 1993) further explains that the distributive justice does not mean that everyone has the equal earnings regardless the contribution he/she makes to the society. Islam recognizes and acknowledges the existence of uneven ownership in of wealth. However, it emphasizes that it should not undermine the assurance of a humane standard of living for every member of society. Thus Muslim scholars has held consensus that it is rightful for an individual muslim to own more wealth than the others do as far as he/she is fulfilling the obligation to pay zakah for the welfare of the community. Whenever zakah is believed not sufficient to create economic justice within the society, a government can impose other lawful revenues under the condition that the government does not excessively spend their expenses (Iqbal, 2007, p. 48). Such revenues were precedent in some historical muslim reigns including Caliph Omar II. Despite this remarkable concept of zakah or waqf as endogenous Islamic instruments dealing with social justice, there also arises skepticism of its potential in diminishing indigence.

(Farooq, 2009) argues that there is no historical evidence and analysis strongly adequate to support this common notion among muslim scholars. Moreover, he astutely highlights that the prevailing notion that the establishment of zakah during the early Islamic period substantiates its efficacy in mitigating poverty within society is, in fact, a myth. Nevertheless, he does concede that the initial epoch of Islam, particularly the era under the reign of Omar bin Abdul Aziz, stands as a remarkable epoch of profound social justice within the Islamic framework. However, zakah is not seen as the determinant factor of that great and just civilization. He argues that It was not zakah but conquests and loots on which the instrument of diminishing poverty was mostly based ((Farooq, 2009, p. 46). In addition, Phillip correlates this claim that as due to the nature of its small proportion, only could zakah contribute to economic development on very marginal contribution (Philip, 1990, p. 130).

In addition to the skepticism on its efficacy in alleviating the poverty in the contemporary era, Kuran implies three problems zakah has to deal with. Firstly, since zakat has no clear ruling on categorizing income charged for zakah regarding measurement of poverty of individuals obliged to pay zakah in modern context, zakah burden is not primarily afflicted on the rich but also on the poor peasants. Secondly, it is worth noting that despite its intended objective, the scope of zakah primarily focuses on the traditional agricultural sector of the early Islamic period. However, in the contemporary era, the economic landscape has shifted, with the majority of economic products originating from the manufacturing and service sectors. This would then lead to the previous problem when burden is much more stressed on the poor. Finally, it should be acknowledged that the zakah scheme had a notably significant impact during an era when prices remained fixed at all levels, as was the case in the early Muslim period. However, its effectiveness may be limited in the present time when prices are subject to free fluctuations. Nevertheless, Kuran goes on to acknowledge that these obstacles could be overcome by implementing reforms in the methods of levying and disbursing zakah(Kuran, 1986, pp. 144–150).

Kuran's skepticism aligns with various studies and empirical evidence regarding the current implementation of the zakah institution. Notably, recent studies and evidence from regions such as Aceh, Indonesia, and Malaysia have provided further support for Kuran's reservations. Aceh is an Indonesian province in which special autonomy in practicing Islamic institutions is acknowledged by central government. Baitul Mal, authorized to administer not only zakah but also waqf and other religious lawful revenues, has been established since 2004, nevertheless the poverty percentage of its population is ranked at the highest six of all provinces ((BPS), 2021). Although regulation procedure still contributes to the complexity of its administration, the ruling is not the main reason leading to the failure of the poverty alleviation. Meanwhile, (Nadzri, AbdRahman, & Omar, 2012) also highlight transparency and inefficiency of its distribution has resulted in the failure of successful eradication of poverty in Malaysia.

When discussing the empirical history of zakah empowerment, an individual muslim has always been memorably connected to the two office years of caliph Omar II (682-720 AD) who successfully utilized this instrument to bring equal justice into Islamic society (Farooq, 2009). While Farooq (2009) and (Philip, 1990) suggest that there is insufficient evidence to support the effectiveness of zakah in poverty alleviation, it is important to note that this assertion may not be entirely accurate. For instance, Baitul Mal, the main capital source used to fund the establishment of a just and prosperous society during Omar II's administration, included zakah as part of its revenues (Khaeroni, 2015). This highlights that zakah played a role in contributing to the creation of an equitable and just society during that time.

Loots and booties as triumphs of conquests did played important role in alleviating impoverishment due to the large amount of fund raised from those asstes(Farooq, 2009), nevertheless those conquered lands had been decreed by Omar I (bin Khattab) as waqf (Khaeroni, 2015) Thus, *kharj*, a revenue imposed on a productively cultivated conquest land by a *dhimmi*, alone contributed to 140 billion dirham in governance of Omar II. Such cultivated lands were adjudicated by Imam Malik based on a tradition reported by Omar bin Khattab as *waqf*. It means that those *kharj*revenues were actually produced from productive *waqf* lands. In a similar vein, we can conclude that *waqf* as another Islamic economic institutions did play the vital role in alleviating poverty as an empirical evidence in the reign of Omar II even decades before that in the era of Omar I when the large expansion to neighbouring territories started. Aside from *kharaj*, *ushr* was afflicted on muslims cultivating the conquest lands. Further Khaeroni also highlights the good governance credited in personality, norms and the belief constructed on shariah objectives as adhered by Omar II also played important role which brought successfulness of his era (Khaeroni, 2015). Further, the significantly developmental role of *waqf* for Islamic civilization is observed throughout the Islamic golden age until the Ottoman empire (Budiman & A., 2016). As discussed previously, to confirm the evidence of its developmental role, *waqf* institutions even contributed to institutionalization of trust funds of the whole globe.

It is learned from history then that the role of zakah or waqf in diminishing impoverishment is unquestionably vital in the empirical record of early Islamic society. In addition to this endogenous Islamic economic institutions' role, the administration with good and effective accountability and transparency is also the other side of the coin to succeed combating the poverty. It is also ultimately notable that aside from their potency in alleviating impoverishment, an administration with good and effective accountability and transparency is the other core factor of successful campaign in combating poverty using these institutions.

The contemporary approaches to institutional adaptation is highlighted here to locate the moral economy of development in practice. Firstly, Islamization of financial institution is not always seen as a marginal adaptation response. In some area where the financial institutions are formed for the objectives which are similar to Islamic finance, the adaptation process emerges at the same time with construction of Islamic knowledge and familiarly shared goals identical to those of Islamic finance. One viable model is that of cooperative banks, which are capable of engaging in various business activities typically associated with commercial banks, including retail operations. In this model, the ownership of the cooperative bank is shared among its clients, thereby reducing the emphasis on shareholder interests as the stakeholders themselves are the shareholders (Mohd, 2016).

Profit growth in this context also signifies an improvement in social equality. This particular banking structure sharply diverges from the objectives commonly associated with traditional commercial banks operating within the framework of the neo-classical economy. The process of Islamizing cooperatives becomes more aligned with Islamic finance principles when interest-based transactions are eliminated from their operations. The concept of mutualization, as proposed by (El-Gamal, 2005), can be seen as a means of transforming the mainstream commercial banking model into a cooperative structure. This proposition finds support in the research conducted by (Abdul-Rahman, Latif, Muda, & Abdullah, 2014) who suggest that the Profit and Loss Sharing (PLS) scheme, advocated in Islamic finance, is better suited for a business model banking approach rather than a financial intermediary banking approach. Therefore, transforming conventional banks into Islamic banks is highly desired within Islamic financial principles, signifying a shift from the current financing model to a more prudent business model. Another model that can be considered is narrow banking, where the PLS methods of mudharabah and musharakah are more appropriate and simultaneously mitigate the risks associated with the mainstream commercial banking model (Garcia, Cibils, & Maino, 2004).

Secondly, innovative models of financing have emerged, with one notable example being the innovation of financial technology (fintech). The impact of fintech has attracted the attention of some commercial banks, leading them to undergo transformation into fintech-focused institutions (Puschmann, 2017). However, it is important to note that this transformation necessitates further preparedness on the part of the banks (Hung & Luo, 2016). Fintech has emerged as a response to the regulatory limitations observed in both conventional and Islamic banks. In the contemporary era, numerous fintech institutions have offered financial services to clients. In Indonesia, for instance, Bukareksa provides an opportunity for clients to invest in Shariah-compliant portfolios with a minimum investment of just IDR 10,000, making it accessible for any resident to participate (Dewi, 2017). Such advancements have the potential to alleviate financial exclusion issues and contribute to the pursuit of social justice.

Although muslim majority countries are not listed in developed countries, some of them are indexed among the most generous countries with Indonesia has the highest World Giving Index score for the fifth year in a row in 2022 (CAF, 2022). This trend sparks a glowing hope that the aspired giving culture of *homo-Islamicus* will contribute again to the sustain and sound growth of development. Homo-Islamicus seek more profit gain by 70.000 % of their investment through the *waqf* culture for development than that of 10 % - 30 % profit in conventional investment. “The example of those who spend their wealth in the way of Allah is like a seed [of grain] which grows seven spikes; in each spike is a hundred grains. And Allah multiplies [His reward] for whom He wills. And Allah is all-Encompassing and Knowing," Q.S Al-Baqarah:261.

Lastly, one notable example of such institutions is Baitul Mal Wat Tamwil (BMTs), which serves as a regulatory body for zakah in the field of microfinancing and operates as cooperatives in Indonesia (Hadisumarto & Ismail, 2010). The establishment of BMTs originated from the efforts of a civil society group associated with Salman Mosque at ITB (InstitutTeknologi Bandung) during a period when the Indonesian government showed limited political will to address sharia legal issues in the 1980s (Suseno, 2020). Despite Indonesia's underperformance, looking from the fact that it is one of G20 member, in the global Islamic finance industry compared to other Muslim and non-Muslim countries, as indicated by annual reports from global Islamic finance indexes, the legal framework for BMTs remains unavailable, causing legal uncertainty in its unique structural formation (Prasada, E., J., & K., 2020). Aside from the lack of its specific legal basis, BMTs also are exposed to challenges the cooperatives face in Indonesia among others the inactiveness which leads to the measly overall contribution of cooperatives to the Indonesia's gross domestic product with less than 2 %. (Gito, Syechalad, Hasan, Shabri, & A., 2017) This is the difference between Indonesia whose constitution regards cooperatives as indigenously constitutional financial institutions and German and the other European countries which have supported the cooperative banking model since more than two centuries ago (Guinnane, 2012). However, regardless of the political will and legal issues discussed above, BMTs has successfully improved the prosperity of Small and Middle Enterprises (SME) and ameliorate financial exclusion of the impoverished (Suseno, 2020) with more sounding financial formation encouraging equity as aspired by Islamic economics. The concept of innovation, rooted in the framework of the New Economic Institution theory, draws lessons from the historical success in empowering zakah and waqf institutions for microfinance (Ahmed, 2002; Mahat, Jaaffar, & Rasool, 2015; Rahman & Dean, 2013). Furthermore, waqf, in addition to its role as a motivation for the microfinance sector, has started to be financed through sukuk in Indonesia (Junaedi, 2017). This demonstrates the adaptation and utilization of traditional Islamic economic institutions in contemporary financial practices.

Conclusion

In its practical implementation, Islamic finance has exhibited a shift away from its fundamental objectives as envisioned in Islamic economics. During the early phases of the resurgence of Islamic economics, scholars postulated that Profit and Loss Sharing (PLS) financing was the desired aspiration in Islamic finance. However, in reality, particularly

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within Islamic banking practices, this form of financing has been marginalized in its role. Consequently, this phenomenon has led to the perception of Islamic finance merely as an imitation and replica of conventional financial constructs (Rethel, 2011), thereby failing to establish itself as a distinctive financial concept compared to the well-established conventional finance (Kuran, 1995) that has developed over centuries. Numerous underlying factors contribute to this state of affairs, aside from its relatively early stage of development.

One intriguing aspect is how Islamic finance, especially Islamic banking, emerged from a process of marginal adaptation. This has led to the operational outlook of Islamic finance being heavily influenced by the neo-classical economic perspective, which emphasizes growth and profit maximization for a select group within the community. This can be seen as one of the fundamental issues, as it is related to the philosophical concepts that underpin the system.

Islamic Moral Economy, therefore, is viewed as a viable alternative perspective that aligns with the practice of Islamic finance. The moral economic framework corresponds to the character and objectives pursued by Islamic economics in its financial practices. Under this viewpoint, Islamic finance goes beyond mere imitation of conventional finance, solely aiming to maximize shareholder profits. Instead, it needs to reconsider its outlook, taking into account the interests of stakeholders and the environment to fulfill the objectives of Islamic economics. Such a perspective can be built upon the foundation of Islamic Moral Economy.

In addition to advocating Profit and Loss Sharing (PLS) financing within the framework of Islamic Moral Economy, the positioning of Islamic social finance in the post-colonial institutional transition deserves attention. The organizations present in the post-colonial era are remnants of colonial civilization originating from the West. The effectiveness of Islamic social finance in promoting justice and prosperity within Muslim communities has been demonstrated in previous discussions. Hence, the management of zakat and waqf organizations should consider appropriate forms that align with the operational characteristics of zakat and waqf institutions. By doing so, the management of zakat and waqf can be optimized to reduce poverty through wealth distribution within society.

New innovations through marginal adaptations in Islamic finance can align with the objectives of Islamic economics when these innovations are built on the same framework as authentic Islamic finance. For instance, the establishment of cooperative institutions or the integration between Islamic social finance and commercial finance in the form of Islamic microfinance institutions (BMT) exemplify such innovations. Similarly, financial technology (fintech) innovations can be in line with the spirit of Islamic economics if they adhere to its principles. However, it is essential to note that fintech can also become a platform for misguided innovations if the framework of Islamic moral economy is neglected.

Nevertheless, fintech offers significant opportunities for building a more ideal Islamic finance system, overcoming the constraints faced by traditional banking due to stringent regulations that hinder the implementation of financing models in line with the objectives of Islamic economics, both legally and socially. As a less-regulated environment, fintech provides ample opportunities to create a financial system that better aligns with the goals of Islamic economics. This can potentially pave the way for more legally and socially responsible financial practices.

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