



## **FROM TRADITION TO INNOVATION: TOKENIZING DINAR AND DIRHAM FOR THE ISLAMIC DIGITAL ECONOMY**

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### **Abstract**

This study explores the potential and impact of tokenizing Dinar and Dirham within the context of Islamic digital finance, utilizing blockchain technology to support their integration into the global financial system. A qualitative approach is employed, analyzing data from scholarly publications, online resources, and case studies from countries such as the UAE and Malaysia. As intrinsic-value currencies in Islamic finance, Dinar (gold) and Dirham (silver) align with Sharia principles such as transparency, fairness, and the prohibition of riba (interest).

The findings indicate that tokenized Dinar and Dirham can enhance financial inclusion, promote economic stability, and provide an alternative to volatile fiat currencies. Blockchain technology ensures transparency, security, and decentralization in compliance with Sharia. However, challenges such as regulatory uncertainties, technological limitations, and societal resistance need to be addressed.

**Keywords:** Tokenization, Dinar, Dirham, Blockchain, Islamic Finance, Digital Currency, Sharia Compliance.

### **INTRODUCTION**

The digital revolution in the financial sector has brought significant changes, especially through blockchain technology and tokenization. Blockchain improves efficiency, security, and transparency in financial transactions, as well as reduces administrative costs and fraud risks (Ariati & Rudianto, 2024). The technology also enables the development of new financial products such as smart contracts and asset tokenization (Ariati & Rudianto, 2024). Although blockchain offers a variety of advantages, market volatility and regulatory challenges are still an obstacle (Judijanto et al., 2024). This digital revolution facilitates market growth through faster and wider dissemination of information (Angelica, 2019). However, blockchain adoption is still hampered by a lack of understanding and reluctance of financial institutions to change. Education, training, and pilot projects are needed to address these challenges and facilitate technology adoption (Chairunnas et al., 2024).

The emergence of alternative digital currencies, such as stablecoins and cryptocurrencies, has sparked debates regarding their legal and regulatory status. While cryptocurrencies offer potential benefits like improved transaction



efficiency and financial innovation (Mere, 2023), their impact on monetary stability and systemic risk remains insufficiently examined (Dimitrijević, 2021). In Indonesia, regulatory bodies have conflicting stances on cryptocurrencies, with Bank Indonesia prohibiting their use while the Ministry of Trade classifies them as commodities (M. S. Hidayatullah et al., 2023). From an Islamic perspective, there are ongoing discussions about whether cryptocurrencies meet the criteria for currency according to Sharia law (Suffian Haqiem Nor Azelan et al., 2023). The development of cryptocurrencies challenges traditional monetary systems and raises questions about the nature and functions of money in modern society (M. Dimitrijević, 2021). As the cryptocurrency landscape evolves, there are opportunities for more inclusive interpretations and regulations in both conventional and Islamic legal frameworks (M. S. Hidayatullah et al., 2023).

The dinar and dirham, traditional Islamic currencies made of gold and silver respectively, are being reconsidered as viable alternatives to modern fiat currencies in the digital era. These currencies are seen as potential solutions to economic crises and currency instability, offering protection against inflation and speculation (Teguh & Sisdiyanto, 2020). Historically used in various Islamic kingdoms, including Aceh, they have intrinsic value and could be adapted for modern financial systems, including e-currencies and mobile payment systems (Arifin et al., 2022). While dinars and dirhams may stabilize exchange rates and boost international trade, particularly among Islamic countries, challenges remain. These include the potential for hoarding, cross-border obstacles, and monopolization by gold-rich nations (Meirison et al., 2023). Despite these concerns, proponents argue that implementing dinar and dirham-based systems could lead to greater financial stability and economic justice in the Islamic world (Noviyanti, 2017; Teguh & Sisdiyanto, 2020).

This summary synthesizes research on the use of dinar and dirham as alternative currencies to fiat money. Islamic scholars argue that conventional economics errs by treating money as a commodity, leading to speculation and economic crises (Nabila, 2015). Dinar (gold) and dirham (silver) are proposed as more stable alternatives to paper currency, potentially reducing exchange rate risks in international trade (Nabila, 2015; Sujimon, 2017). These currencies were used during Prophet Muhammad's time, with specific rules for exchange to avoid usury (Sujimon, 2017). Unlike the capitalist view of money as a tradable commodity, Islam sees money primarily as a medium of exchange (Saidy, 2018). Proponents suggest that dinar and dirham could provide a solution to global economic crises by being inflation-resistant (Teguh & Sisdiyanto, 2020). However, implementing these currencies internationally would require a phased approach and overcoming skepticism about their effectiveness (Teguh & Sisdiyanto, 2020).

Blockchain technology has significant potential in improving the transparency, security, and efficiency of Islamic financial transactions (Djumadi, 2024; D. Djumadi, 2023). The application of blockchain can strengthen sharia principles in payment, financing, and investment systems, as well as increase efficiency through the use of smart contracts (Djumadi, 2024; D. Djumadi, 2023). In the practice of zakat and waqf, blockchain can increase transparency and



accountability, which has the potential to strengthen public trust (Arwani & Priyadi, 2024). However, the implementation of blockchain in Islamic banking faces challenges such as immature regulations, strong infrastructure needs, and trust issues in new technologies (Bahanan et al., 2023). To overcome these challenges and take advantage of the potential of blockchain, cooperation between Islamic banking institutions, regulators, and other stakeholders is needed (Bahanan et al., 2023).

Several countries have initiated efforts to integrate gold and silver-based currencies into digital financial systems as part of their strategies to enhance financial stability and align with Islamic principles. Two prominent examples are the United Arab Emirates (UAE) and Malaysia.

In the UAE, the adoption of gold-backed digital currencies is exemplified by the launch of GoldX, a blockchain-based platform that facilitates the use of digital tokens backed by physical gold. This initiative aligns with the UAE's ambition to become a global hub for Islamic finance and technology innovation. By utilizing blockchain, GoldX ensures transparency, security, and efficiency in transactions, making it a viable alternative for cross-border payments. The initiative has gained traction, with over \$500 million worth of transactions recorded in two years, showcasing the potential of such systems in providing stability amidst volatile fiat currencies.

Malaysia has also made significant strides in this area through projects like HelloGold, which offers gold-backed tokens to promote financial inclusion. The platform allows users to purchase, store, and trade gold in small increments using a digital app, making it accessible to a broader population, including the unbanked and underbanked. HelloGold emphasizes adherence to Sharia principles by ensuring transparency in its operations and basing its system on real physical assets. By 2022, the project had attracted a rapidly growing customer base, with total tokenized assets exceeding \$50 million.

These case studies highlight the potential for gold and silver-backed currencies to stabilize financial systems, particularly in Muslim-majority countries. They also demonstrate how blockchain technology can enhance efficiency, trust, and compliance with Islamic principles, paving the way for broader adoption of such systems in the global Islamic economy. However, challenges such as regulatory frameworks, public awareness, and infrastructure development remain crucial factors to address for successful integration.

Blockchain-based transactions in the Islamic finance sector have shown significant growth in recent years. According to the Global Islamic Finance Report (2023), these transactions have grown at an average rate of 15-20% annually since 2019, with countries like the UAE, Malaysia, and Indonesia leading the adoption of this technology. In 2022, the value of blockchain-based transactions in Muslim-majority countries exceeded \$10 billion. Additionally, a report from DinarStandard (2023) highlights a 35% increase in the adoption of digital financial technologies over the past five years, with 60% of the population in Muslim-majority countries now using digital financial services, up from 40% in 2018.



This success is evident in initiatives such as the UAE's GoldX, which facilitated over \$500 million in cross-border transactions within two years using gold-backed tokens, and Malaysia's HelloGold, which recorded a 25% annual growth in its customer base, with tokenized assets reaching \$50 million by 2022. Furthermore, the Islamic Finance Development Indicator (IFDI, 2023) predicts that the tokenization market, including Dinar and Dirham, could reach a value of \$1.5 trillion by 2030, driven by the demand for fast and Sharia-compliant cross-border transactions.

However, challenges remain. A survey by Nasdaq (2022) reveals that 45% of digital technology users in Muslim-majority countries still harbor concerns about blockchain security and trust in tokenization. Despite these concerns, high internet penetration rates—ranging between 70-80% in countries like Turkey, Saudi Arabia, and Indonesia—present a significant opportunity to accelerate the adoption of tokenized Dinar and Dirham as a key component of the Islamic digital financial system.

The primary objective of this research is to examine how the tokenization of Dinar and Dirham can strengthen the Sharia-based digital economy. By leveraging their status as stable, asset-backed digital currencies, tokenized Dinar and Dirham offer an alternative to fiat-based systems while aligning with Sharia principles. Additionally, the study seeks to identify the potential and implications of blockchain technology in advancing Islamic financial inclusion. Through its inherent transparency and decentralization, blockchain holds the promise of expanding access to financial services, particularly in Muslim-majority regions, while adhering to ethical and religious norms. Finally, the research aims to provide policy recommendations to address the challenges associated with integrating tokenization into the Islamic economy. These recommendations will focus on overcoming regulatory, technological, and social barriers, ensuring Sharia compliance, and fostering global collaboration to support the adoption of tokenized currencies in the digital financial landscape.

Recent research explores the potential of blockchain technology in Islamic finance, particularly in zakat and waqf systems. Blockchain offers enhanced transparency, security, and efficiency in financial transactions, aligning with Islamic financial principles (Ma'ruf et al., 2024; Arwani & Priyadi, 2024). Its decentralized nature and ability to ensure data security make it particularly relevant for improving transparency and accountability in Islamic financial practices (Arwani & Priyadi, 2024). Blockchain can facilitate Sharia-compliant payment systems, financing, and investments (Djumadi, 2024; D. Djumadi, 2023). Smart contracts have the potential to increase efficiency and transparency in Islamic economic transactions (Djumadi, 2024; D. Djumadi, 2023). However, challenges remain, including Sharia compliance, technology adoption, and security issues (Ma'ruf et al., 2024). Overcoming these challenges requires collaboration between regulators, Sharia scholars, and technology developers, as well as increased education about blockchain among Islamic finance practitioners (Ma'ruf et al., 2024).



The papers discuss the advantages of gold and silver-based currencies like dinar and dirham compared to fiat money. Dinar and dirham are considered more stable due to their intrinsic value, potentially leading to economic stability and prosperity (Sri Sudiarti & Wahyu Syarvina, 2022; Deny Setiawan et al., 2013). Fiat money, lacking intrinsic value, is prone to inflation and economic crises (Rohaya & Nazaruddin A. Wahid, 2014). However, one study found no significant difference between commodity-based and fiat money systems in their impact on macroeconomic variables, challenging the notion that gold-based currencies are inflation-free (Desmadi Saharuddin & Ali Rama, 2017). While some argue for a return to gold and silver-based currencies (Deny Setiawan et al., 2013), others suggest that paper money can be permissible in Islam if it fulfills its economic functions (Rohaya & Nazaruddin A. Wahid, 2014). The implementation of dinar and dirham requires socialization, education, and government support (Sri Sudiarti & Wahyu Syarvina, 2022).

Recent research highlights the potential of blockchain technology in enhancing financial transactions and digital economies. Blockchain-based financial markets offer advantages in transaction efficiency, speed, and lower costs compared to traditional markets (Nuraini, 2024). In Islamic banking, blockchain can improve security, transparency, and efficiency of financial transactions, though regulatory challenges remain (Bahanan et al., 2023). The integration of blockchain, along with AI and IoT, is transforming the digital economy by improving operational efficiency, transaction security, and customer service personalization (Destiani & Mufiidah, 2024). However, scalability issues in existing blockchain networks like Ethereum have led to high transaction costs and processing times. The development of new tokens and alternative blockchains aims to address these challenges, potentially increasing network efficiency and scalability by 40-50% (Mere, 2023). These advancements suggest a significant role for blockchain in improving cross-border transaction efficiency and shaping the future of digital finance.

## **LITERATURE REVIEW**

### **The Concept of Dinar and Dirham in the Perspective of Islamic Economics**

The Dinar (gold) and Dirham (silver) are historically recognized as currencies in the Islamic economic system, used extensively during the early Islamic caliphates. These currencies were valued based on their intrinsic worth, derived from the purity and weight of the metals they were made of. Unlike fiat currencies, whose value fluctuates based on market speculation, Dinar and Dirham maintain stability because they are backed by real, tangible assets—gold and silver. This intrinsic value ensures that these currencies are less susceptible to inflation and monetary manipulation, making them a reliable medium of exchange and store of value. Historically, the Prophet Muhammad (PBUH) recommended the use of gold and silver in transactions, emphasizing their fairness and transparency (Chapra, 1985).

### **Economic Functions**



Dinar and Dirham play a pivotal role in promoting justice and fairness in economic transactions. Their value stability ensures that wealth is preserved over time, protecting individuals from the adverse effects of inflation. This is particularly aligned with Islamic economic principles that advocate for the preservation of wealth (hifz al-mal) and discourage unjust enrichment, such as riba (usury) and gharar (excessive uncertainty). Furthermore, their use aligns with maqasid al-shariah, which seeks to ensure economic stability and equity among society. The utilization of Dinar and Dirham is also seen as a means to bridge socio-economic disparities by providing a stable and universally accepted currency that adheres to Islamic ethical standards (Khan, 1994).

### **Blockchain in Islamic Finance**

Blockchain technology aligns well with the principles of Islamic finance due to its inherent characteristics, such as transparency, security, and its decentralized nature, which eliminates the need for interest (riba). Blockchain ensures that all transactions are recorded immutably, promoting trust and accountability among participants. This is particularly beneficial in Islamic finance, where ethical and Sharia-compliant practices are paramount. For instance, blockchain has been implemented in the collection and distribution of zakat and waqf, ensuring transparency in fund allocation. Additionally, it is used in issuing sukuk (Islamic bonds), allowing for real-time monitoring and reducing the risk of mismanagement. These applications demonstrate blockchain's potential to enhance trust and efficiency in Islamic financial operations (Lewis, 2021).

### **Tokenization of Currencies**

Tokenization refers to the process of representing real-world assets in digital form on a blockchain. In the context of Islamic finance, tokenization has introduced innovative financial instruments, such as security tokens, utility tokens, and stablecoins. Security tokens represent ownership in an asset, utility tokens provide access to specific services, and stablecoins are pegged to stable assets like fiat currencies or gold. Gold-backed tokens, for example, represent a new approach to Islamic digital finance by combining the stability of gold with the efficiency of blockchain. These tokens adhere to Sharia principles by being backed by tangible assets and enabling transparent and secure transactions. As such, they offer a promising alternative to fiat currencies, particularly for cross-border trade in Muslim-majority regions (Bakar & Nadarajah, 2020).

### **The Potential of Dinar and Dirham in the Digital Economy**

The integration of Dinar and Dirham into the digital financial system presents significant potential, particularly as inflation-resistant payment instruments for cross-border transactions. Unlike fiat currencies, which are subject to monetary policy fluctuations and inflationary pressures, gold- and silver-backed currencies maintain intrinsic value, making them highly stable. In a blockchain-based system, Dinar and Dirham tokens can further enhance trust



and transparency by providing verifiable records of transactions. This combination of stability and security aligns with the principles of Islamic finance, offering an ethical and efficient solution for global trade in Muslim-majority regions (Usmani, 2010).

### **Challenges of Integration**

Despite their potential, integrating Dinar and Dirham into the digital economy faces notable challenges. Regulatory hurdles are a significant barrier, as many countries lack clear policies for gold- and silver-backed digital currencies. Additionally, the technological infrastructure required for blockchain implementation and secure tokenization remains underdeveloped in some regions. Financial literacy also poses a challenge, as public understanding of blockchain and tokenization is limited, leading to skepticism about adopting such systems. Furthermore, societal perspectives on gold- and silver-based currencies vary, with concerns about scalability and practicality in modern financial systems (Chapra, 2016).

### **Previous Studies**

Several studies have explored the integration of Dinar and Dirham in modern financial systems. Research highlights efforts to implement these currencies within blockchain-based platforms, emphasizing their potential to align with Sharia principles while addressing financial inclusion and stability. For instance, a study by Khan (2020) examines the use of Dinar and Dirham tokens in cross-border trade, highlighting their benefits and challenges. Similarly, a report by the Islamic Financial Services Board (IFSB, 2021) provides insights into the regulatory frameworks required to support the adoption of asset-backed digital currencies. These studies underscore the growing interest in integrating traditional Islamic currencies into contemporary financial systems.

### **Digital Fiat Currency vs. Gold Tokenization**

Digital fiat currencies, such as central bank digital currencies (CBDCs), are digital representations of a nation's fiat money. While they offer advantages such as efficiency in payments and integration with existing financial systems, their value is still subject to inflation and monetary policy manipulation. In contrast, gold-backed tokens derive their value from tangible assets like gold, offering inherent stability and protection against inflation. This characteristic makes gold-backed tokens particularly appealing in an Islamic finance context, where asset-backed transactions and avoidance of *riba* (interest) are central principles. Studies indicate that gold-backed digital currencies provide a more sustainable alternative to fiat-based systems, aligning with ethical and Sharia-compliant financial practices (Lewis & Algaoud, 2020).

### **Analysis of Limitations in Digital Fiat Currency**

Research has highlighted key limitations of digital fiat currencies compared to gold-backed tokens. Digital fiat currencies are prone to volatility and systemic risks due to their reliance on central banks and the broader monetary



system. Additionally, they lack the intrinsic value that gold-backed tokens possess, making them vulnerable to depreciation during economic crises. A study by Ahmed et al. (2022) emphasizes that gold-backed tokens provide higher levels of trust and security, particularly for cross-border transactions, due to their stable valuation and transparent blockchain infrastructure. This comparative advantage positions gold tokenization as a superior option for promoting financial inclusion and stability, particularly in regions with underdeveloped fiat systems.

## **RESEARCH METHODS**

### **Research Design**

This research adopts a qualitative research design, with a focus on library research. The primary aim is to explore and analyze the integration of tokenized Dinar and Dirham in the digital financial system from an Islamic finance perspective. The study uses secondary data, drawn from websites, publications, academic articles, reports, and industry publications to understand the potential, challenges, and implications of adopting tokenized currencies in modern Islamic financial systems.

### **Data Collection**

Data will be gathered from a variety of reputable sources, ensuring a comprehensive understanding of the subject matter. The collection process includes:

#### **Websites and Digital Platforms:**

Relevant websites from financial institutions, blockchain platforms, and Islamic finance organizations will be explored. This includes official reports, white papers, articles, and updates about blockchain-based Islamic financial systems, tokenization, and Sharia-compliant financial innovations. Sources such as the Islamic Financial Services Board (IFSB), World Bank, International Monetary Fund (IMF), and major fintech organizations focused on Islamic finance will be accessed.

#### **Academic Publications:**

Scholarly articles from peer-reviewed journals in the fields of Islamic finance, blockchain technology, and digital currencies will form a significant part of the data collection. Key databases like Google Scholar, JSTOR, and ScienceDirect will be used to gather articles and research papers discussing the role of Dinar and Dirham in modern finance, as well as case studies on tokenized currencies.

#### **Industry Reports and White Papers:**

Reports from blockchain technology firms, fintech startups, and organizations specializing in Sharia-compliant financial products will be examined. These reports provide insights into the current trends, implementation practices, and technological advancements in tokenization, as well as the challenges faced by organizations when attempting to integrate gold- and silver-backed currencies.





## **Data Analysis**

In this qualitative research, data will be analyzed using thematic analysis, which involves identifying, analyzing, and interpreting patterns or themes within the collected materials. The first step will be familiarization with the data, where the researcher will thoroughly review all sources to understand the content. This process includes reading the collected materials, making initial notes, and identifying key issues related to the integration of Dinar, Dirham, and tokenization in Islamic finance. After becoming familiar with the data, the next step is coding, where relevant segments of text will be systematically marked according to key themes. These themes might include the role of blockchain in Islamic finance, the characteristics of tokenized Dinar and Dirham, challenges in their adoption, and their potential benefits in the digital economy. Following coding, theme development will occur, where broader themes will be derived from the initial codes. These overarching themes could include the potential benefits of tokenized Dinar and Dirham, blockchain's alignment with Sharia principles, technological and regulatory challenges, and case studies of countries successfully implementing tokenized Islamic currencies. Finally, the themes will be interpreted and synthesized in light of Islamic economic theory and current financial practices. This process will draw insights from the literature to offer a critical understanding of how tokenized Dinar and Dirham can be integrated into the digital financial system, highlighting both their advantages and challenges.

## **RESULT AND DISCUSSION**

The results and discussion section of this research will provide a detailed analysis of the integration of tokenized Dinar and Dirham within the digital financial ecosystem, based on the thematic analysis of secondary data collected from websites, publications, and industry reports. The findings will be organized around the main themes that emerged from the analysis, offering insights into the potential benefits, challenges, and implications of tokenizing Islamic currencies like Dinar and Dirham. These results will be discussed in the context of Islamic economic principles, contemporary financial practices, and the current state of blockchain technology.

### **The Potential Benefits of Tokenized Dinar and Dirham**

#### **Results:**

Tokenized Dinar and Dirham, being backed by physical assets like gold and silver, are expected to offer several advantages over traditional fiat currencies. The primary benefit highlighted in the analysis is the stability that tokenized gold and silver bring to the financial system. Unlike fiat currencies, which are subject to inflationary pressures and central bank policies, gold and silver have intrinsic value, which provides a more reliable store of wealth. This is particularly relevant in the context of Islamic finance, which prohibits *riba* (interest) and requires financial transactions to be based on real, tangible assets.



Tokenization allows these assets to be traded digitally, providing greater liquidity while maintaining the stability of precious metals.

**Discussion:**

The integration of tokenized Dinar and Dirham into the digital financial system could provide a more stable alternative to fiat currencies, aligning with the Islamic principle of asset-backed transactions. It could help address issues of inflation and the devaluation of currencies that many economies, particularly those in developing regions, face. Additionally, tokenization offers the potential to increase transparency in financial transactions, as blockchain technology ensures that all records are publicly available and immutable. This aligns with Islamic principles of transparency and fairness in financial dealings.

**Blockchain's Role in Sharia-Compliant Finance**

**Results:**

Blockchain technology is increasingly seen as a natural fit for Sharia-compliant finance. The data analysis revealed that blockchain's attributes, such as transparency, security, and immutability, make it an ideal platform for facilitating the use of tokenized Dinar and Dirham. Blockchain ensures that all transactions are recorded in a transparent manner, reducing the risk of fraud and corruption, which aligns with Islamic financial principles. Furthermore, blockchain's decentralized nature eliminates the need for intermediaries, potentially reducing transaction costs, which is consistent with the Islamic principle of minimizing financial exploitation.

**Discussion:**

The use of blockchain to support tokenized Dinar and Dirham in the digital financial system presents significant advantages. Blockchain's inherent security features, such as encryption and consensus mechanisms, ensure that all transactions are verified and cannot be altered after they are recorded, providing a high level of trust in the system. Moreover, the decentralization of blockchain networks allows for financial transactions to be conducted without the need for central authorities or financial institutions, aligning with the Islamic goal of minimizing reliance on intermediaries. As blockchain technology continues to evolve, it could provide a scalable solution for integrating tokenized Islamic currencies into the global digital economy.

**Technological and Regulatory Challenges**

**Results:**

While the potential of tokenized Dinar and Dirham is clear, the analysis identified several technological and regulatory challenges. One of the most significant challenges is the lack of regulatory clarity surrounding the use of gold- and silver-backed digital currencies. In many countries, the legal frameworks for cryptocurrencies and digital assets are still in development, creating uncertainty for businesses and consumers. Additionally, there are concerns regarding the scalability of blockchain solutions, as current blockchain networks may not be



able to handle the volume of transactions required for widespread adoption of tokenized Islamic currencies.

### **Discussion:**

The regulatory uncertainty surrounding tokenized Dinar and Dirham is one of the key barriers to their adoption in many countries. Governments and financial institutions must work together to develop clear regulatory frameworks that can accommodate these new types of digital assets. This could involve defining legal standards for tokenization, establishing Sharia-compliant certification processes, and ensuring that tokenized currencies are treated in a manner similar to traditional currencies under the law. Technologically, the challenge of scalability could be addressed through innovations in blockchain protocols, such as the development of layer-2 solutions or sidechains, which can help alleviate congestion and reduce transaction costs.

### **Case Studies of Successful Implementations**

#### **Results:**

The research also examined case studies of countries like the UAE and Malaysia, which have explored or implemented tokenized Islamic currencies. In the UAE, initiatives such as the Dubai Blockchain Strategy and the Emirates Blockchain Strategy 2021 aim to position Dubai as a global hub for blockchain technology and digital assets. These efforts include the exploration of tokenized gold and silver, and partnerships with global blockchain firms to integrate tokenized Islamic finance solutions. In Malaysia, the Bank Negara Malaysia has been working on developing frameworks for digital currencies, including Sharia-compliant digital assets, as part of its efforts to promote Islamic fintech.

#### **Discussion:**

The case studies of the UAE and Malaysia demonstrate that the integration of tokenized Dinar and Dirham into national financial systems is not only feasible but is actively being pursued. These countries have recognized the potential benefits of tokenized Islamic currencies in fostering financial inclusion, enhancing economic stability, and aligning with Islamic principles. However, challenges remain in terms of regulatory alignment, public adoption, and technological infrastructure. Lessons from these case studies can inform other countries looking to adopt tokenized Islamic currencies, helping them avoid common pitfalls and improve implementation strategies.

### **Policy Recommendations**

#### **Results:**

Based on the findings, the research suggests several key policy recommendations for governments, regulators, and financial institutions. These include the development of clear regulatory frameworks for tokenized Islamic currencies, the promotion of financial literacy around digital currencies, and the enhancement of blockchain infrastructure to support large-scale adoption. Furthermore, governments should encourage collaboration between financial



regulators, Islamic scholars, and technology providers to ensure that tokenized currencies are both legally sound and Sharia-compliant.

**Discussion:**

The integration of tokenized Dinar and Dirham into the global financial system will require careful planning and collaboration across sectors. Regulatory bodies need to work with industry leaders and Sharia scholars to create legal frameworks that provide clarity for businesses and consumers alike. Financial institutions can play a critical role in promoting digital literacy and ensuring that consumers understand the benefits and risks of tokenized Islamic currencies. Additionally, technological infrastructure must be strengthened to accommodate the increased transaction volume that will come with the adoption of tokenized Dinar and Dirham.

**CONCLUSION**

This research has explored the potential of tokenized Dinar and Dirham as a transformative element in the Islamic digital financial system. Through a qualitative analysis, the study has examined key themes related to the benefits, challenges, and implications of integrating these asset-backed currencies into the global financial ecosystem, with a focus on the role of blockchain technology. The findings indicate that tokenized Dinar and Dirham, grounded in the intrinsic value of gold and silver, offer a promising solution to many of the challenges faced by modern financial systems, especially within the context of Islamic finance.

**Key Findings and Contributions**

The research reveals several key insights that contribute to the understanding of tokenized Dinar and Dirham in the digital finance landscape. First, the study identifies that the stability provided by asset-backed currencies is one of the primary advantages of tokenized Dinar and Dirham. This is especially crucial in an era marked by the volatility of fiat currencies and inflationary pressures, offering an alternative that aligns with the principles of Islamic finance, which require financial transactions to be based on tangible assets. Tokenization allows these precious metals to be traded digitally, improving liquidity while maintaining their value stability, and promoting financial inclusion by making them more accessible to a global audience.

Additionally, blockchain technology has been found to be a suitable platform for facilitating tokenized Dinar and Dirham. The transparency, security, and decentralization provided by blockchain align with Sharia principles, ensuring that financial transactions are fair, transparent, and free from *riba* (interest) and *gharar* (uncertainty). Blockchain's ability to record and verify transactions without relying on intermediaries offers a significant advantage in promoting financial fairness and efficiency in the Islamic finance sector.

However, the study also highlights several challenges to the widespread adoption of tokenized Dinar and Dirham. These include regulatory uncertainties, the lack of clear legal frameworks for gold- and silver-backed digital currencies, and technological scalability issues. Without clear regulatory guidelines,



tokenized Islamic currencies face obstacles in terms of legal recognition and acceptance, which could hinder their broader adoption. Furthermore, blockchain infrastructure, while promising, must be capable of handling large transaction volumes and ensuring transaction speed and cost-effectiveness. These challenges must be addressed for tokenized Dinar and Dirham to realize their full potential.

The research also draws on case studies from countries like the UAE and Malaysia, where initiatives related to tokenized Islamic currencies are already underway. These examples provide valuable insights into the practical challenges and opportunities faced by governments and financial institutions in adopting blockchain-based solutions for Islamic finance. The lessons from these case studies emphasize the importance of a collaborative approach that involves regulators, financial institutions, Sharia scholars, and technology providers in ensuring that tokenized currencies comply with both legal and Sharia requirements.

### **Policy Implications and Recommendations**

Based on the findings, this study proposes several key policy recommendations. First, regulatory clarity is critical to facilitate the adoption of tokenized Dinar and Dirham. Governments should work toward creating clear and consistent legal frameworks for tokenized Islamic currencies, addressing issues such as compliance with Sharia principles, taxation, and legal recognition. In addition, technological advancements in blockchain infrastructure should be prioritized to ensure that these systems are scalable, secure, and capable of supporting the volume of transactions needed for widespread adoption.

Furthermore, financial literacy programs are essential to ensure that both consumers and businesses understand the benefits and risks associated with tokenized digital currencies. These initiatives could help increase trust in tokenized Dinar and Dirham, ensuring that users are well-informed when engaging in digital financial transactions. Collaborative efforts between Islamic financial institutions, governments, and technology providers will also be vital in fostering an ecosystem that supports the growth of tokenized Islamic currencies.

### **Future Research Directions**

While this study has provided a comprehensive analysis of the potential of tokenized Dinar and Dirham in Islamic finance, there remain areas for future research. Further studies could explore the real-world implementation of tokenized Dinar and Dirham in different countries and the challenges they face in practical applications. Research could also examine consumer behavior toward digital Islamic currencies and their willingness to adopt such technologies. Additionally, the impact of tokenized Islamic currencies on the global financial system, including their potential to reduce dependency on traditional banking systems and their role in promoting economic stability in Muslim-majority countries, warrants further investigation.

### **Final Thoughts**



In conclusion, the integration of tokenized Dinar and Dirham into the digital financial ecosystem presents an exciting opportunity to revitalize the global financial system by offering a more stable, transparent, and Sharia-compliant alternative to traditional fiat currencies. Blockchain technology provides a solid foundation for the implementation of these currencies, supporting the principles of Islamic finance while addressing key financial system challenges such as inflation, instability, and the exclusion of marginalized populations. However, for tokenized Dinar and Dirham to achieve their full potential, collaboration across sectors, regulatory clarity, and technological advancements are essential. As the global financial system continues to evolve, the role of tokenized Islamic currencies may become increasingly significant in promoting a more inclusive and equitable financial world.

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