

## PERFORMANCE OF ISLAMIC FINANCIAL: A QUALITATIVE STUDY IN IMPROVING THE REGIONAL ECONOMY

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### *Abstract*

*Islamic financial institutions offer resources that the community can employ to expand economic opportunities and strengthen the local economy. The primary competitive and productive force in the national economy is the regional economy. Because of this, the growth of micro, small, and medium-sized businesses must be the nation's top goal in terms of economic development. The purpose of this study is to demonstrate how Islamic financial institutions help local business owners achieve economic development. This kind of research is a literature review, using data sources found by using preset variable keywords to search Google Scholar. The role of financial institutions in the economy, including asset transfers, transactions, liquidity, and efficiency, is covered by the study's findings. The purpose of Islamic financial institutions is to advance and foster the integration of Islamic values, sharia, and customs into banking, finance, and associated industries.*

**Keyword:** *Local Businessmen, Islamic Financial Institutions, Regional Economic Development*

### *Abstrak*

Lembaga keuangan Islam menawarkan sumber daya yang dapat dimanfaatkan masyarakat untuk memperluas peluang ekonomi dan memperkuat perekonomian lokal. Kekuatan kompetitif dan produktif utama dalam perekonomian nasional adalah perekonomian regional. Oleh karena itu, pertumbuhan usaha mikro, kecil, dan menengah harus menjadi tujuan utama bangsa dalam pembangunan ekonomi. Tujuan dari penelitian ini adalah untuk menunjukkan bagaimana lembaga keuangan Islam membantu pemilik usaha lokal mencapai pembangunan ekonomi. Jenis penelitian ini adalah tinjauan literatur, dengan menggunakan sumber data yang ditemukan dengan menggunakan kata kunci variabel yang telah ditetapkan untuk pencarian Google Scholar. Peran lembaga keuangan dalam perekonomian, termasuk transfer aset, transaksi, likuiditas, dan efisiensi, tercakup dalam temuan penelitian ini. Tujuan lembaga keuangan Islam adalah untuk memajukan dan mendorong integrasi nilai-nilai Islam, syariah, dan adat istiadat ke dalam perbankan, keuangan, dan industri terkait.

**Kata Kunci:** *Pengusaha Lokal, Lembaga Keuangan Syariah, Pembangunan Ekonomi Daerah*

### **Introduction**

Economic development in Indonesia is increasing and supported by Islamic financial institutions. This development is marked by more and more Islamic financial institutions accompanied by facilities or products offered by sharia-based financial institutions. Islamic financial institutions include Islamic banking, sharia insurance,

sharia mutual funds, and other sharia financial institutions. The existence of these financial institutions has an impact on the community's economy and contributes to economic transformation in economic activities (Abidin, 2006; Danish & Usman, 2010; Yokubovna, 2019). The role of financial institutions in community economic development, especially in the Islamic economy, continues to be improved because it considers the opportunities and challenges in the digital financial era. When compared to neighboring countries such as Malaysia, Islamic economic development in Indonesia must be intensified in order to compete with conventional financial institutions and even Islamic financial institutions in neighboring countries. Therefore, financial institutions must continue to strengthen in order to increase their role in developing the Islamic economy. Establishing sharia financial institutions is a sign of the society's dedication to putting sharia principles into practice. Through a profit-sharing structure, sharia aspires to assist the community realize welfare, honesty, and justice (Ahyani & Slamet, 2021; Fahlefi, 2016).

A nation needs its finances to improve immediately, especially when it comes to paying higher wages and asking the government for personalized aid. The growth rate of per capita income, which is regarded as a representation of a nation's economy and the degree of local government support, is what macroeconomic studies refer to as financial development. The primary goal of financial advancement is to increase the amount of labor and goods produced locally and create jobs (Fadilah, 2019; Arfah, 2021).

In helping the community, Islamic financial institutions offer resources that the community can use to expand economic opportunities and strengthen the local economy. The primary competitive and productive force in the national economy is the micro economy. Because of this, the growth of micro, small, and medium-sized businesses must be the nation's top economic development objective (Dacholfany et al., 2024; Hanadya et al., 2023). The role of microeconomics is expected to expand business relations and potential, make a major commitment to financial development, and equalize payments and improve public economic development. According to Adam (2022), because of their scale, local entrepreneurs don't need a lot of financing. However, local business actors face challenges like diminishing demand and sales,

challenging and costly raw resources, capital constraints, impeded production, and hindered operational distribution.

So that Islamic financial institutions indirectly reduce local economic problems in the capital crisis to develop their business. The 2020 Report on Indonesia's Sharia Economy & Finance issued by Bank Indonesia shows that during 2022, Islamic financial services have disbursed financing of IDR 445.55 trillion, with the principal contribution coming from bank financing, worth IDR 400.70 trillion. In addition, there has begun to be a link and match between sharia economic needs and sharia financing from the business sectoral side, especially in sharia banking financing (Hafidhuddin, 2002). Based on the importance of Islamic financial institutions in helping microeconomic problems to develop the economy, the purpose of this study is to examine the strategic role of Islamic financial institutions for MSMEs in realizing economic development in Indonesia.

### **Research Methods**

This type of research is qualitative research. Qualitative is research that is descriptive in nature) (Afini et al., 2023; Agustin et al., 2023). The purpose of this study is to demonstrate how Islamic financial institutions help local business owners achieve economic development. This qualitative study's main objective is to gather data and then analyze the material that is already available (Creswell, 2009). Information on the anticipated realization of Islamic financial institutions for local businesses in realizing economic development is information that can only be communicated qualitatively through interviews (Yasin, 2018). Primary information is information obtained slowly through observation or long-term interviews using official documents and currency exchange rates, the information is in the form of quantitative data from Islamic financial institutions, especially information about the regional economy in realizing economic development.

### **Discussion**

Islamic financial institutions play a role in providing facilities or products offered to meet the needs, welfare and justice based on sharia. Islamic financial

institutions include Islamic banking, sharia insurance, sharia mutual funds, and other sharia financial institutions. The impact of institutions on community economic development can contribute to economic transformation in economic activities.

According to Yahya & Agunggunanto (2011), Support for enhancing Islamic financial institutions' capabilities in terms of capital, human resources, risk management, and good corporate governance is necessary for them to fulfill their strategic role as regional business hubs and realize economic development (GCG). In terms of strengthening the direction of policies and regulations, the Financial Services Authority (OJK) has launched securities crowdfunding (SCF) or crowdfunding services to facilitate funding for MSMEs. In addition, Islamic banks have been established as an effort to defend the financing capacity of Islamic banks.



**Figure 1.** Sharia Economic Empowerment

The first step in defending the role of Islamic financial institutions as middlemen for sharia business actors is the development of securities crowdfunding (SCF) regulations by OJK as a substitute source of funding for MSMEs. The second is the creation of Bank Syariah Indonesia, which aims to enhance the ability of Islamic banks to channel financing to the halal industry ecosystem by creating the Sharia Banking Development Roadmap 2020–2024, which serves as a roadmap for achieving Islamic banking that is resilient, highly competitive, and significantly contributes to the national

economy and social development (Saintilan & Schreiber, 2017; Yukl, 2012). As for increasing the role of Islamic social finance, the government has launched the Roadmap for the Development of Economic Independence of Islamic Boarding Schools. In addition, a transformation of the management of zakat, infak, alms, and waqf was carried out. "The transformation of management is also being pursued, among others, through strengthening regulations and governance, strengthening human resources and research. Increased awareness and literacy, product innovation, digitalization and platform sharing, as well as optimization of sharia social fund distribution to help handle the Covid-19 pandemic," (Marlini et al., 2021; Atmadja & Saputra, 2018; Narayanamurthy & Tortorella, 2021; Wildman et al., 2021). As one of the Islamic financial institutions in the midst of the epidemic, BSM's responsibilities include reorganizing customer financing, providing social support, maximizing CSR initiatives, putting in place safety measures, and moving bank operations to digital platforms (Ulum, 2016; Wahyudi et al., 2022; Wibisono, 2015)



**Figure 2.** Types of Sharia Economic Empowerment

The arrangements made aim that the work of Islamic financial institutions can generate energy and add to the progress of Islamic finance and money issues in the country to develop along from efforts to develop aspects of Islamic finance and money in the country that will bring endless benefits to the assistance of local, state and state governments. Monetary entertainers and Islamic monetary foundations can create a

viable halal industry environment to understand the outstanding ability of halal businesses to develop Islamic banking. Opportunities in the financing sector are very flexible followed by the factor of public interest in sharia transactions is getting bigger. Therefore, cooperation from various parties in supporting and encouraging efforts to develop the Islamic financial industry (Kholis, 2008; Mahargiyantie, 2020; Mardani, 2015).

Microfinance Institutions (MFIs) are one type of financial institution that can be used and encouraged to finance economic activity in rural areas where the bulk of enterprises in the micro sector are located. Although this institution has spread throughout rural areas, its use has not been to its full potential (Purwanto, 2023). According to Hidayad et al., (2023), the growth of Islamic banking is focused on making the biggest positive impact on society and the country's economy. As a result, other strategic plans like the National Medium-Term Development Plan (RPJMN), National Long-Term Development Plan (RPJPN), and Indonesian Banking Architecture (API) and Financial System Architecture (ASKI) are always mentioned when discussing the direction of national Islamic banking development. In light of this, the development of Islamic banking is one endeavor among many that aid in the larger-scale, national implementation of strategic plans. by offering a wider range of financial programs along with a number of various banking goods and services. To promote economic development, Islamic banking is a respectable substitute banking system that is adhered to by all segments of Indonesian society. Islam, a life-regulating religion, aids in directing and leading people in the management of financial resources to attain advantages in this world and the next (Ridlo, 2014; Santi, 2019; Suardi, 2021).

As a result, asset transfer, transactions, liquidity, and efficiency are all parts of financial institutions' roles in the economy. The purpose of Islamic financial institutions is to advance and foster the integration of Islamic values, sharia, and customs into banking, finance, and associated industries. Sharia principles are the rules of Islamic law that apply to banking and financial operations and are based on decisions made by organizations with the power to decide what constitutes a legitimate fatwa in the area of sharia (Istiqomah, 2019; Jamal, 2010).

## Conclusion

The role of financial institutions in the economy, including asset transfers, transactions, liquidity, and efficiency, is covered by the study's findings. The purpose of Islamic financial institutions is to advance and foster the integration of Islamic values, sharia, and customs into banking, finance, and associated industries. Islamic financial institutions play a crucial role in supporting MSMEs as they grow, which boosts business owners' incomes and has a knock-on effect on economic development.

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