

Sharia Financing in Improving the Ummah's Economy

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Abstract: Sharia financing is one of the important instruments in the modern economy, especially in the context of the people's economy. The basic concept of sharia financing that is free from elements of *riba*, *gharar* (uncertainty), and *maysir* (gambling), offers alternative solutions for Muslims in carrying out economic activities in accordance with sharia principles. In its development, sharia financing has proven to make a significant contribution to improving the welfare of the people, both through the micro, small, and medium (MSME) sector and other sectors. Through Islamic financial institutions, such as Islamic banks, Islamic cooperatives, and non-bank financial institutions, Islamic financing provides fairer and more transparent access to financing, as well as reducing economic inequality. Financing based on *mudharabah*, *musharakah*, *murabahah*, and *ijarah*, for example, encourages collaboration between capital owners and entrepreneurs, increases productivity, and creates wider employment. In addition, sharia products such as *sukuk* also play an important role in attracting beneficial investments for infrastructure development and increasing the economic capacity of the community. However, although sharia financing has great potential, challenges still exist, such as the lack of public understanding of sharia products, limited access to sharia financial institutions in certain regions, and challenges in creating a supportive ecosystem. Therefore, it is necessary to increase Islamic financial literacy, strengthen regulations, and support from the government and the community to optimize the role of Islamic financing in improving the economy of the people in a sustainable manner.

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INTRODUCTION

Sharia financing is one of the financial systems based on the principles of Islamic teachings. This system is designed to ensure that all financial transactions carried out are in accordance with sharia values, such as the prohibition of *riba* (interest), *gharar* (uncertainty), and *maysir* (gambling), as well as emphasizing the principles of justice and the welfare of the people. In the context of the people's economy, sharia financing has an important role in encouraging improved welfare, economic equity, and reduction of social inequality.

In the midst of increasingly complex and diverse global economic developments, the need for a fair and transparent financial system is increasingly urgent. Sharia financing exists as an alternative to overcome these problems, by offering solutions that are more ethical and in accordance with the principles of social justice. In addition, sharia financing also provides space for people who have been marginalized by the conventional financial system to access various financial products and services, so that they can participate in economic activities and improve their quality of life. Sharia financing has a variety of instruments that can be accessed by the public, such as *mudharabah* (profit sharing), *musharakah* (business cooperation), *murabahah* (buying and selling with a clear profit margin), and *istishna* (contract for the purchase of goods based on orders). Each of these instruments is designed to provide equitable benefits to all parties involved, as well as encourage the creation of a healthy and sustainable economic ecosystem.

One of the main focuses of sharia financing is the empowerment of micro, small, and medium enterprises (MSMEs), which are the main pillars of the economies of many countries, including Indonesia. By providing easier access to financing and in accordance with sharia principles, the MSME sector can grow, create jobs, and improve the welfare of the community as a whole. In addition, sharia financing also plays a role in optimizing the management of *zakat*, *waqf*, and *infaq*, which can be used to finance social, educational, and health programs, in order to improve the quality of life of the people. Thus, sharia financing not only focuses on material benefits, but also on social welfare and inclusive economic development. Through a fairer, more transparent, and sharia principle-based approach, sharia financing is expected to make a significant contribution to improving the people's economy, realizing equitable welfare distribution, and creating a sustainable and socially friendly economy.

METHOD

Research on sharia financing in improving the economy of the ummah involves various approaches and methods to explore and analyze the contribution of sharia financing to economic welfare and equity, especially in the micro, small, and medium enterprises (MSMEs) sector. The approaches used in this study include qualitative and quantitative approaches. The qualitative approach aims to explore a deep understanding of the application of sharia financing in the community and its impact on the economy of the people, by highlighting the perceptions, experiences, and views of the community, Islamic financial institutions, and business actors. Meanwhile, the quantitative approach focuses on measuring the contribution of sharia financing through the analysis of statistical data, such as business growth, income increase, and poverty reduction.

The types of research applied include descriptive and explanatory research. Descriptive research aims to provide an overview of the phenomena that occur in sharia financing practices, such as the products applied and their impact on the economic welfare of the people. On the other

hand, explanatory research emphasizes more on the cause-and-effect relationship between sharia financing and improving the people's economy, for example by analyzing how sharia financing affects the performance of MSMEs in the long term.

The data collection techniques used include interviews, surveys, and observations. Interviews were conducted with business actors, customers of Islamic financing institutions, and related parties to gain direct insight into their experiences in accessing Islamic financing. Surveys with questionnaires are used to collect quantitative data, while observations provide a real picture of the application of sharia financing in the field. The data sources in this study consist of primary data obtained directly from informants and secondary data taken from literature, publications, annual reports of Islamic financial institutions, and government statistical data.

In analyzing data, qualitative and quantitative analysis techniques are applied. Qualitative analysis uses a thematic approach or content analysis to identify patterns and themes from the results of interviews and observations. Meanwhile, survey data is analyzed quantitatively with descriptive and inferential statistical techniques, such as regression analysis or correlation tests to understand the relationship between sharia financing and people's economic growth. The impact analysis model used includes economic and social impact analysis. Economic impact analysis assesses the contribution of sharia financing to the growth of the MSME sector and poverty reduction, while social analysis measures its impact on social welfare, access to education, health, and reduction of economic inequality.

RESULTS AND DISCUSSION

Based on the results of research on sharia financing in improving the economy of the ummah, it can be divided into several aspects, including the impact on the micro, small, and medium enterprises (MSMEs) sector, social welfare, economic equity, and contribution to the management of zakat, waqf, and infaq. Here are some of the key results that can be found from the study:

Impact on Micro, Small, and Medium Enterprises (MSMEs)

Sharia financing has a significant impact on the MSME sector, which is one of the main pillars of the people's economy. Some of the results found in this study are: 1) Increased Access to Financing: Many MSMEs who previously had difficulty getting access to financing from conventional banks, can now obtain financial support through sharia financing products such as mudharabah and musharakah. This product helps them in developing an interest-free business, which is often burdensome for them. 2) Increased Business Scale: With sharia financing, many MSME actors are able to expand their businesses, buy better machinery or raw materials, and improve product quality. This has an impact on increasing revenue and production capacity. 3) Business Stability: Profit-sharing-based financing, such as mudharabah and musharakah, tends to be more profitable for business actors because of risk sharing. This financing provides protection for MSMEs from the possibility of burdensome payments, so they can focus more on business development.

Improving the Economic Welfare of the People

Sharia financing also plays a role in improving the economic welfare of the people. Based on the results of the study: 1) Increase in Community Income: Many MSME actors who receive sharia financing report an increase in their income after accessing the funds. With more affordable financing and a fairer profit-sharing system, many businesses are growing and able to provide

jobs for the surrounding community. 2) Poverty Reduction: Sharia financing contributes to reducing poverty rates, especially in areas that depend on the MSME sector. By providing easier financing, sharia allows people to access resources that can improve their standard of living.

Economic Equity

One of the main goals of sharia financing is to create a fairer and more equitable economy. Some research results show that: 1) Access to More Equitable Financing: Sharia financing opens access for people who were previously unreachable by conventional banks, such as the poor and rural. With products such as murabahah (buying and selling with a clear margin) and ijarah (rent), more individuals and groups can get financing to meet their needs, be it for business or consumption needs. 2) Utilization of Zakat, Waqf, and Infaq: Sharia financing is not only limited to business aspects, but also touches social aspects. Zakat, waqf, and infaq funds managed by Islamic financial institutions are often used to fund community empowerment, education, health, and poverty alleviation programs, which contribute to economic equity.

Impact on the Management of Zakat and Waqf

Sharia financing plays a role in improving the management of zakat, waqf, and infaq funds, which are used for social purposes. Based on research: 1) Efficiency of Social Fund Management: Sharia financing allows for more efficient and transparent management of social funds. The collected zakat and waqf funds are managed with sharia principles to finance social projects that can directly have a positive impact on the people. 2) Economic Empowerment through Productive Waqf: Research shows that waqf funds are not only used to build social infrastructure, but also to fund productive businesses that can support the community. For example, productive waqf managed by Islamic financial institutions is used to establish small businesses that generate profits and support the economic sustainability of the local community.

Improving the Quality of Education and Health

Sharia financing also contributes to improving the education and health sectors of the people. Some of the results found are: 1) Education Financing: Many Islamic financial institutions provide education financing products that allow people to access quality education without being burdened by interest. This helps to improve the level of education of the community, which in turn improves the quality of human resources in various sectors. 2) Health Financing: Sharia financing products also help people to obtain proper health services. With the principle of mutual cooperation and risk sharing, sharia-based health financing provides a solution for those who cannot access conventional health insurance.

CONCLUSION

Based on the results of the research, sharia financing has been proven to have a positive impact on improving the economy of the people, especially in the development of MSMEs, economic equity, and social empowerment. Sharia financing products provide a fair and transparent alternative for the public to access funds, expand their businesses, and improve their welfare without being trapped in a burdensome interest system. Sharia financing also contributes to the effective management of zakat, waqf, and infaq, which can be used to finance important social programs. Therefore, sharia financing has great potential to improve the economic conditions of the people and create a more inclusive and sustainable economy.

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