

The Role of Islamic Finance in Achieving Sustainable Development in Indonesia

(Peran Keuangan Syariah dalam Mewujudkan Pembangunan Berkelanjutan di Indonesia)

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ABSTRACT

Purpose: This study aims to determine the role of Islamic finance in achieving sustainable development in Indonesia and what roles Islamic finance plays in achieving sustainable development.

Design/methodology/approach: This research method uses a qualitative approach with library research techniques to explore and analyze literature relevant to the topic of the role of Islamic finance in achieving sustainable development. The qualitative approach was chosen because it allows researchers to understand the phenomenon in depth, including related social, economic, and environmental aspects.

Findings: The results of this study indicate that Zakat, green sukuk, and Sharia microfinance play a very important role in achieving sustainability goals. They also have great potential to contribute to the achievement of sustainable development goals through the introduction of a green economy and environmentally friendly practices.

Research implications: The results of this study show that there is great potential to contribute to the achievement of sustainable development goals in Indonesia through zakat, green sukuk, and microeconomic financing.

Keywords: Islamic Finance; Sustainable Development; Green Sukuk

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ABSTRAK

Tujuan: Penelitian ini bertujuan untuk mengetahui peran keuangan syariah dalam mewujudkan pembangunan berkelanjutan di Indonesia serta mengidentifikasi peran-peran yang dimainkan keuangan syariah dalam pencapaian pembangunan berkelanjutan.

Desain/Metodologi/Pendekatan: Metode penelitian ini menggunakan pendekatan kualitatif dengan teknik studi pustaka (*library research*) untuk menelusuri dan menganalisis literatur yang relevan dengan topik peran keuangan syariah dalam mewujudkan pembangunan berkelanjutan. Pendekatan kualitatif dipilih karena memungkinkan peneliti memahami fenomena secara mendalam, termasuk aspek sosial, ekonomi, dan lingkungan yang terkait.

Temuan: Hasil penelitian ini menunjukkan bahwa zakat, sukuk hijau, dan pembiayaan mikro syariah memiliki peran yang sangat penting dalam pencapaian tujuan keberlanjutan. Instrumen-instrumen tersebut juga memiliki potensi besar untuk berkontribusi terhadap pencapaian tujuan pembangunan berkelanjutan melalui pengenalan ekonomi hijau dan praktik ramah lingkungan.

Implikasi: Hasil penelitian ini menunjukkan adanya potensi besar dalam berkontribusi terhadap pencapaian tujuan pembangunan berkelanjutan di Indonesia melalui zakat, sukuk hijau, dan pembiayaan mikroekonomi.

Kata Kunci: Keuangan Syariah, Pembangunan Berkelanjutan; Green Sukuk

INTRODUCTION

The world today faces a variety of dynamic global challenges, including poverty, climate change, inequality, and environmental degradation. To address these challenges, the concept of sustainable development emerged. This concept emphasizes the importance of meeting the needs of the current generation without compromising the ability of future generations to meet their own needs. This concept does not only focus on environmental issues. However, its focus is on the green economy, sustainable development, and social justice.

In the context of a dynamic global economy, understanding the challenges and opportunities of Islamic finance is very important. Changes in global economic conditions, etc. B. Changes in exchange rates, changes in interest rates, and market volatility affect financial management strategies. Islamic financing must be able to adapt to these changes while maintaining consistency in Islamic principles. Another challenge is the complexity of Islamic financial regulations and standards. Implementing consistent Islamic regulations requires close cooperation between financial institutions, governments, and regulators. Product development and innovation in Islamic finance also pose challenges, as they must meet the needs of an ever-evolving market while adhering to strict Islamic principles (Hamizar et al., 2024). Although the theory of sustainable development has been criticized and interpreted differently over time, it is often considered one of the most widely cited concepts in the literature. In essence, sustainable development begins with the idea of three main pillars that emphasize the importance of balance between the main dimensions of economic profit, social responsibility, and environmental sustainability. If the balance between these three pillars is well maintained, then truly sustainable development can be achieved. Given the increasing challenges such as climate change, environmental degradation, and increasing social inequality, the application of sustainable economic principles is essential to ensure the continuity of human life and the preservation of the planet in the future (Solechah & Sugito, 2023).

This agenda also refers to the dominant neoclassical economic development concept, which states that sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. In this context, sustainable development involves the integration of the economy and the environment in an effort to improve the quality of life of the community while respecting the limits of the life-supporting ecosystem. This approach aims to create a system that not only provides economic benefits, but also ensures environmental sustainability for future generations. Sustainable development requires cross-sector cooperation and the active participation of all stakeholders to achieve the desired goals (Burhanuddin, 2016).

In Indonesia, sustainable economy is defined as an activity that emphasizes shared welfare, providing benefits to producers and consumers without only pursuing economic growth. The National Development Planning Agency (Bappenas) stated that the goal of sustainable development is to improve people's welfare, maintain environmental quality, and ensure social justice. One manifestation of sustainable economy is circular economy, which focuses on waste reduction and optimal resource utilization through the 5R principle: *reduce, reuse, recycle, repair, and recovery*. By implementing this principle, it is hoped that a more efficient and environmentally friendly economic system will be created.

Awareness of the importance of a sustainable economy is growing amidst global challenges, with initiatives from governments, the private sector and communities to promote sustainable practices. Many companies are now adopting greener business practices and committing to reducing their carbon footprint. A sustainable economy also supports the achievement of the Sustainable Development Goals (SDGs) set by the United Nations, which

focus on eradicating poverty, inequality and climate change. Therefore, a sustainable economy is not just an option but an urgent need to create a better future (Yasmine, 2023).

Sharia financial instruments play a vital role in supporting sustainable development and social responsibility. Sharia principles, which involve justice, transparency, and sustainability, guide the behavior and function of these financial instruments. Sharia financial instruments not only focus on financial profit but also on their positive impact on the welfare of society and the environment. In particular, zakat and infaq, as part of Islamic financial instruments, contribute directly to social responsibility by allocating part of wealth to help the poor and support public interests, including education and health. Sharia financial instruments also tend to support long-term investments, create long-term economic stability, and reduce financial risks that could harm society (Haerunnisa et al., 2023).

LITERATURE REVIEW

Sustainable Development

Sustainable development (Emil Salim, 1990) aims to improve the welfare of society, meet human needs and aspirations. Sustainable development essentially seeks to achieve equitable development between generations, both now and in the future. According to KLH (1990), development (which is fundamentally more economically oriented) can be measured for sustainability based on three criteria: (1) No wasteful use of natural resources or depletion of natural resources; (2) No pollution or other environmental impacts; (3) Activities must be able to increase usable resources or replaceable resources (Rahadian, 2016).

In line with the above concept, sustainable development goals include efforts to achieve: a. Equitable distribution of development benefits between generations (intergenerational equity), which means that the use of natural resources for growth must take into account reasonable limits within the control of ecosystems or environmental systems and be directed towards replaceable natural resources, while minimizing the exploitation of irreplaceable natural resources. b. Safeguarding or protecting the sustainability of existing natural resources and the environment and preventing ecosystem disturbances in order to ensure a good quality of life for future generations. c. Utilizing and managing natural resources solely for the purpose of pursuing economic growth in the interest of equitable and sustainable utilization of natural resources among generations. d. Maintaining the sustainable welfare of the people (society) both now and in the future (intertemporal). e. Maintaining the benefits of development or management of natural resources and the environment that have long-term or sustainable benefits between generations. f. Maintaining the quality of human life between generations in accordance with their habitat (Dan et al., n.d.).

Islamic finance

Provides an alternative that is in accordance with Sharia principles to support sustainable development. Islamic financial institutions can play a role in financing environmentally friendly and sustainable projects and avoiding investments that are detrimental to the environment (Dewi et al., 2023).

Sharia finance plays an important role in Indonesia's economy. This can be seen from sharia banking services, sharia capital markets, and others. The principles of sharia finance applied in Indonesia include: 1. Partnership Between the sahibulul and mudharib, or between the creditor and debtor, form a partnership in carrying out a project. The relationship between the two parties is one of partnership, meaning that profits are not predetermined from the outset, thus avoiding any disadvantage to either party. The primary objective of Islamic finance is to provide financial assistance to those in need. The essence of Islamic finance ensures that the Islamic financial system is based on the principle of mutual benefit. In this regard, potential customers are expected to form partnerships to achieve mutual benefits. The

partnership between both parties will result in mutual benefits. 2. Benefit Principle of benefit. Still related to the principle of partnership, benefit can be interpreted as the prioritization of utility in Islamic finance. Islamic financial institutions will prioritize the benefits of activities carried out in accordance with Islamic regulations. It can be concluded that Islamic financial institutions will not focus on profits. Instead, they will focus on the benefits received from the financing that has been carried out. Therefore, if the benefits provided are significant, that is far better. Similarly, in investments, the concept is not about the nominal amount but rather how significant the benefits obtained are. 3. Unity The principle of unity in Islamic finance can be described as a complete unity between customers on one side and Islamic financial institutions on the other. This means that they cannot be separated from one another, meaning that both parties are a complete unity that must work together. In the concept of Islamic finance, the *sahibulmal* and *mudharib* must cooperate with one another in carrying out a project. Therefore, it does not offer profits that contain usury, but rather cooperates with a profit-sharing system so that both parties benefit. 4. Mutual consent In Islamic financial institutions, the relationship between the *sahibulmal* and the *mudharib* emphasizes the principle of mutual consent. This means that the debtor and the Islamic financial institution must mutually consent to the agreement. There is no coercion in this relationship. All parties have equal standing and will receive the same returns in accordance with the agreement in the form of profit-sharing. The harmony between the *sahibulmal* and *mudharib* is a manifestation of the implementation of the principle of mutual consent. The Islamic financial instruments selected will become assets that provide benefits in accordance with existing regulations without any element of coercion. 5. Universal The universal principle illustrates that the implementation of Islamic finance is not only intended for a specific community (Islam), but is applied equally to everyone without any element of coercion. This means that all facilities available in Islamic financial institutions can be utilized by anyone, provided they respect and follow the principles implemented in Islamic financial institutions (Purnamasari et al., 2023).

The existence of Islamic financial institutions that not only pursue material profits but also pay attention to social and humanitarian aspects will help create a more inclusive and fair economy. They propose that the government and financial institutions focus on providing financing that can improve the quality of life for the entire community. The importance of the values of justice in the Islamic economic system to create sustainable and fair growth. According to him, economic justice in the Islamic perspective is not only related to the fair distribution of wealth, but also to the equal distribution of opportunities. The Islamic economic system promotes equal opportunities for every individual, regardless of social, economic, or racial background, to achieve well-being (Purba et al., 2025)

Although Islamic finance has great potential, there are challenges to be faced, such as regulatory complexity and the need for product innovation that is in accordance with sharia principles. Cooperation between financial institutions, governments, and regulatory authorities is essential to create a framework that supports the development of sustainable Islamic finance (Arizal Hamizar, 2024).

Green Sukuk

Green sukuk is an innovative financial instrument to support Indonesia's commitment to reducing greenhouse gas emissions based on Islamic law. The issuance of this instrument is guided by the Green Bond and Green Sukuk framework, and reviewed by the international independent reviewer CICERO (Center for International Climate Research). To date, Indonesia is the first country in Southeast Asia to issue green bonds, and this transaction marks the world's first sovereign green sukuk issuance by a nation, totaling US\$1.25 billion in March 2018. As it is a relatively new innovation, there are many opportunities for the

development of Green Sukuk in Indonesia that can be maximized, as well as challenges in its implementation that can be minimized (Karina, 2019).

RESEARCH METHODS

This research method uses a qualitative approach with library research techniques to explore and analyze literature relevant to the topic of the role of Islamic finance in achieving sustainable development. The qualitative approach was chosen because it allows researchers to understand the phenomenon in depth, including related social, economic, and environmental aspects. In the library study, researchers collect information from various sources, such as books, journal articles, and previous research reports, which provide theoretical and empirical insights into the relationship between Islamic finance and sustainable development. By analyzing the existing literature, this study aims to identify different perspectives, challenges, and opportunities in the context of Islamic finance, and provide a strong basis for the conclusions drawn. The researcher then concludes and presents the matters related to the literature review in a simple manner (Surahman et al., 2020).

RESULT AND DISCUSSION

The Influence of Zakat in Reducing Poverty

Professional management of Zakat funds and increased productivity can help maximize poverty and economic growth. Zakat plays an important role in the real world, both as wealth zakat and fitrah zakat, as the main means of communication between the able and the unable. The existence of this zakat facility will realize income equality, bring more wealth to the rich and the poor fairly, and transform zakat recipients into zakat payers (Suryani Dyah & Fitriani Laitul, 2022).

Every institution manager charity have zakat distribution programs which are diverse and each has its own uniqueness. For example, there is the Institution Amil Zakat Which focus on program education, There is Which focus on program health, And There is also Which focus on program economy. However, in a way overall program empowerment charity based on on 5 aspect, that is economy, health, education, humanity, And preaching.

From side program Body Amil Zakat National, There is a number of program Featured Which done in effort alleviation poverty. First, alleviation poverty through Program Economic Empowerment. Several programs that have been implemented, such as ZChicken, Z-Mart, Z-Auto, Center Farm, santripreneur, And other and so on. Second, poverty alleviation in Field Man like Service Active Mustahik, Disaster Response, Logistics Packages Family, Cash Assistance for Work, and etc. Third, Countermeasures Poverty in Field Health, includes programs provision access health especially for poor people through BAZNAS Healthy House, so that mustahik No burdened with cost Which required For get service health Which quality. Fourth, Alleviation Poverty in Field Education, including Scholar Schools and Service Scholarship, so that access education inclusion can reach mustahik in various remote areas.

Total national collection in 2022 reached more than IDR 22.4 trillion while in the first semester of 2023 it reached more than IDR 14.7 trillion. Types of funds collected by BAZNAS/LAZ. The distribution of ZIS funds takes into account 8 (eight) groups (asnaf) of mustahik zakat, namely the poor, needy, amil, muallaf, riqob, gharimin, fisabilillah, and ibnu sabil. If we look at the distribution of ZIS in 2022, most of the ZIS distribution was given to the poor and needy asnaf, which was IDR 21.63 billion, while in the first semester of 2023 it reached IDR 13.86 billion (BAZNAS, 2022).

Zakat distribution is also carried out for 4 (four) main programs, namely education, health, humanity, and da'wah and advocacy. Meanwhile, utilization is focused on 3 (three) programs that also overlap with the distribution program, namely economy, education, and

health. The number of beneficiaries in 2022 reached 33.9 million people while in the first semester of 2023 it reached 24.31 million people. In detail, the mustahik who received the most programs in 2022 were in the humanitarian program, which was 16.2 million people while for the first semester of 2023, it was in the health program as many as 8.49 million people. Nationally, it has succeeded in recording extraordinary achievements in the management of Zakat, Infaq, and Shadaqah (ZIS). With total assets reaching IDR 30,024,382,361,381, consisting of IDR 8,649,671,372,711 in the Balance Sheet and IDR 26,107,514,965,782 in the Off Balance Sheet, it is clear that the Indonesian people are actively participating in their contribution to the common welfare (BAZNAS, 2023).

This data reflects high awareness and participation in zakat collection, giving hope for further strengthening of community welfare efforts. With this data, then can explained that role charity real for development And poverty alleviation. In addition, by implementing the impact of zakat makes management charity become more credible and it is hoped that in the future it can increase the trust of the muzaki so that collection of zakat through institutions can increased (Azzamani et al., 2025).

Zakat management ensures sustainable livelihoods and ecosystems. Recipients of zakat are encouraged to maintain their quality of life through forest management, efficient use of water in agriculture, and preservation of a healthy environment. Zakat is directed toward a cleaner, healthier, and more sustainable future for humanity through sustainable development (Hadi, 2021).

Green Sukuk Development

Green Sukuk is a sharia financial instrument issued to finance environmentally friendly investments that support efforts to overcome the impacts of the climate crisis. The launch of Green Sukuk was motivated by the many problems that occur in Indonesia, such as environmental damage, natural disasters, and climate change. Environmental problems remain as serious as climate change. Indonesia has a tropical climate with two seasons, namely the dry season and the rainy season, which are one of the causes of natural disasters such as floods, landslides, droughts, and forest fires. Sukuk is a form of commitment to the Indonesian government's efforts to overcome the climate crisis (Suwanan et al., 2022).

In addition, Green Sukuk as a form of green finance plays a role in increasing investment flows that focus on green projects. Green Sukuk also has an important role in realizing financial inclusiveness and social responsibility, as well as helping Islamic countries, in particular, in achieving the Sustainable Development Goals (SDGs) that have been set. In March 2018, the government issued the first Green Sukuk in the global market (global sukuk) in support of Indonesia's goal of reducing GHG emissions (UNDP, 2018) worth a total of 3 billion US dollars. This state sukuk consists of global green sukuk worth 1.25 billion US dollars (equivalent to Rp16.7 trillion) and regular global sukuk worth 1.75 billion US dollars. The market response to the issuance of green sukuk was positive. Minister of Finance Sri Mulyani assessed that investor interest in green sukuk was based on the market's desire to increase their portfolio.

The Ministry of Finance will only decide on the green sukuk issuance figure for 2019 after there is an agreement regarding the 2019 State Budget (APBN) with parliament. However, what is clear is that green sukuk is still the preferred option amidst alternative sources of financing. At the global level, Indonesia is the first country to issue this green sukuk after several other countries such as France, Fiji and Poland have previously issued green bonds. Until 2020, the issuance of Green Sukuk has financed green financing sectors managed by three ministries in Indonesia, namely the Ministry of Energy and Mineral Resources (ESDM), the Ministry of Transportation, and the Ministry of Public Works and Public Housing (PUPR). Meanwhile, in June 2021, Indonesia again issued its 4th global

green sukuk with an issuance value of USD750 billion with a 30-year tenor which is the longest tenor in the world and a yield of 3.55%. Green investors also increased by 34% from 2020 and by 29% from 2018-2019.

Green sukuk is not only issued in the global market, but green sukuk also reaches the domestic market. In November 2019, Indonesia issued the first retail green sukuk with the type of savings sukuk series ST006. The nominal sales of the ST006 series reached 1.46 trillion rupiah with the number of investors of 7,735 people. Then in 2020 the government managed to collect 16,992 investors and sales of Rp5.42 trillion series ST007). While in 2021 the ST008 series managed to attract 14,337 capital owners who were in second place during the issuance of retail non-tradable SBSN (State Sharia Securities) (DJPPR, 2021).

Green Sukuk is considered relevant in achieving government goals because the utilization of its issuance funds is specifically allocated to the development sector by considering environmentally friendly aspects, so that government efforts to address problems related to climate change can be realized with several projects funded through Green Sukuk can cover various sectors, such as renewable energy (eg solar power plants or wind power), energy efficiency, sustainable transportation, waste management, reforestation, and projects that contribute to climate change mitigation and environmental conservation, management of dams, lakes, and other water reservoir facilities, construction and management of infrastructure and supporting facilities for railway transportation; and expansion and preservation of agricultural land (Siti Mutmainnah, 2018). The issuance of Green Sukuk is estimated to contribute to reducing greenhouse gas emissions by 10.3 million tons of carbon dioxide equivalent (CO₂e).

The funds raised from the sale of Green Sukuk have been allocated to various climate mitigation efforts in Indonesia, such as sustainable transportation, renewable energy, and waste management. The use of these funds has helped achieve progress in achieving sustainable development goals, especially in addressing poverty alleviation, gender equality, and access to clean water and renewable energy. The development of State Sukuk has shown rapid growth, where the development over the past ten years can be explained as follows:

1. The increase in the number of issuances and contributions of State Sukuk to the financing of the State Budget, with an average of around 30 percent of the total financing of Government Securities (SBN) each year. The total accumulation of State Sukuk issuances until October 2018 has reached more than IDR950 trillion (USD63 billion) with an outstanding as of October 25, 2018 of IDR657 trillion.
2. Since 2013, the Government Sukuk earmarked for project financing has been developed, namely Project Financing Sukuk (Project Sukuk). In the period 2013-2018, the total allocation of Project Sukuk has reached IDR 62.4 trillion spread across 34 provinces. Projects financed through Project Sukuk include the construction of roads and bridges, construction of railway lines, construction of water resource projects (dams, irrigation, provision and management of groundwater), construction and development of lecture buildings, development and revitalization of hajj dormitories, construction and rehabilitation of the Office of Religious Affairs and Hajj Manasik, construction of National Parks (Baluran, Mount Gede Pangrango, Aketajawe-Lolobata/Halmahera), construction and development of madrasahs, and construction and development of laboratories.

Unlike ordinary sukuk, ordinary sukuk only requires a list of government projects that can then be funded through state sukuk on the condition that it does not conflict with sharia principles (Noor et al., 2019). The issuance of green sukuk targets various sectors called 9 eligible sectors, consisting of:

1. Renewable energy is included in the dark green rating.

2. Resilience to climate change for highly vulnerable areas and sectors/disaster risk reduction which is included in the dark green rating.
3. Sustainable transport which is included in the medium to dark ranking.
4. Waste and waste to energy management which is included in the medium to dark rating.
5. Green tourism is included in the medium to dark ranking.
6. Sustainable agriculture which is ranked medium to dark.
7. Energy efficiency which includes a light to medium rating.
8. Sustainable management of natural resources which is ranked light to medium.
9. Green building which includes a light green rating.

Impact of Islamic Microfinance

Islamic microfinance is one of the banking tasks, namely Islamic microfinance is one of the functions of banks, namely providing a means of providing funds according to the needs of parties who lack initial capital. The scarcity of capital can be accessed by providing funds in the form of loans and loans from financial institutions that act as capital providers to MSMEs. The purpose of banking as a financial intermediary is to help MSME actors increase access to financing, increase business productivity, achieve real sector development, help MSME actors overcome and eradicate poverty, and create jobs (Sujarweni, 2017).

Islamic Bank provides facilities in the form of working capital of up to 10 million to 50 million yen to Micro, Small, and Medium Enterprises (MSMEs) whose target market is most likely the financial and banking industry. Because they are easily adaptable in all situations, MSMEs require special attention to ensure good relations with banks. Micro, Small, and Medium Enterprises (MSMEs) have great development potential to improve people's standard of living.

Islamic microfinance offers various benefits, both for the recipients of the financing and for the economy as a whole. For the recipients, this financing provides easier access to business capital, which helps them increase production capacity and income. On the other hand, for the economy, Islamic microfinance can increase financial inclusion and support the small and medium enterprise (SME) sector which contributes significantly to national economic growth (Suryani & Rahmawati, 2023).

Islamic microfinance has a positive social impact, especially in empowering women and alleviating poverty. Islamic microfinance programs aimed at women, for example, can increase their participation in economic and social activities. In addition, Islamic microfinance can also reduce dependence on loan sharks, who often provide loans with high interest rates that burden the poor (Hidayati & Abdullah, 2022).

Islamic microfinance can be an effective tool in poverty alleviation. By providing access to low-income individuals or families to start or grow their businesses, this financing directly increases their income and reduces dependence on social assistance. In addition, by prioritizing sharia principles that do not burden customers with interest, Islamic microfinance also plays a role in creating social justice. Islamic microfinance run by institutions such as Baitul Maal wat Tamwil (BMT) has contributed to improving the quality of life of its recipients through sharia-based economic empowerment (Mulyadi et al. 2023).

Islamic microfinance does not only focus on providing initial capital, but also plays a role in the sustainability of micro-enterprises. This financing is often accompanied by mentoring and training for loan recipients, so that it can help them manage their businesses more efficiently. These Islamic microfinance programs often involve sectors that support sustainability, such as environmentally friendly agriculture and social enterprises that aim to improve community welfare holistically. Community-based Islamic microfinance institutions

have a positive impact on the sustainability of small businesses and reduce the risk of business failure (Surahman et al. 2023).

Islamic microfinance institutions play an important role in empowering the community's economy, especially in supporting the micro and small business sector. Islamic microfinance often provides loans with a more flexible model, such as murabaha (buy and sell) or mudharabah (profit sharing), which are in accordance with sharia principles. This is different from conventional financing which often burdens customers with high interest rates. Through this system, Islamic microfinance can provide fairer access for small entrepreneurs, especially in remote areas who have difficulty obtaining capital from conventional financial institutions (Aziz & Rahman. 2023).

The role of the government is very important in supporting the development of Islamic microfinance. Policies that support Islamic financial inclusion and provide incentives for Islamic microfinance institutions will greatly assist in expanding the reach of services to all levels of society, especially those in remote areas and not yet covered by conventional financial services. Clear regulations are also needed to ensure that Islamic microfinance institutions carry out operations with high transparency and accountability, so that they can maintain customer trust and contribute to sustainable economic development (Fadilah & Nugroho, 2022).

Challenges of Islamic Finance

Islamic finance has many tools that can achieve sustainable economic development, including Islamic banking. Because the Islamic banking system must support the realization of the Islamic economic and social system, the Islamic banking system must aim to achieve economic prosperity in accordance with Islamic ideas. In carrying out its duties and functions, Islamic banks must pay attention to the principle of Maqasid al-Shariat, which is to prioritize the interests of society (maslaha) so that they can live better and achieve prosperity and justice. In achieving sustainable economic development, Islamic banks still have a limited variety of products and services compared to conventional banks.

This can certainly have an impact on customer acquisition. There are still many people who do not understand the principles and products of Islamic banking, which can hinder the growth and adoption of Islamic banking services. Certain regulatory restrictions can also create obstacles to the operation and development of innovative products. In addition, Islamic banking is also less competitive than traditional banking which is more established and has a wider customer base. However, there are still opportunities for Islamic banks to achieve sustainable economic development as long as they also follow the principles of Islamic Islamic banking. The analysis of the challenges and opportunities of Islamic banking in achieving sustainable economic development is in line with the concept of three dimensions of sustainable development: social, economic, and environmental.

Challenges and Opportunities of Islamic Banking in Social Aspects

The social dimension of sustainable development focuses on the common good, social justice, and improving the quality of life. Regarding equality and social inclusion, Islamic banks must be able to reduce social and economic disparities and ensure equal distribution of education, health services, and economic opportunities. Therefore, the challenge for Islamic banks in the social dimension in the context of sustainable economic development is to be able to carry out the responsibility to promote socially oriented equality in the financial world from an ethical perspective. Islamic banks not only have the function of eradicating poverty, but also aim to improve health, ensure quality education, ensure gender equality, and develop infrastructure.

Islamic banking is very important in achieving sustainable economic development because its principles focus on social activities and support income equality. Islamic banking transactions have objectives in the sense of sharia (maqasid sharia), the main objectives of which are faith (din), soul (nafs), intelligence (aql), lineage (nasl), and wealth (time) (Budi Sukardi et al., 2016).

The goal of Islamic banking is to achieve the common good and welfare of society as a whole if these five things are guaranteed. Based on the literature, Islamic banks must be able to create education and training programs that can produce a workforce that has knowledge and skills and has strong ethical and moral values, thus creating a sustainable economy that achieves growth. The challenges and opportunities of Islamic banking from the perspective of society also include the limitations of Islamic financial literacy in society. Challenges in Islamic banking include the lack of an integrated framework for Islamic banking, thus complicating Islamic banking operations and limiting Islamic financial literacy in society.

However, these problems can be overcome through opportunities provided by Islamic banking, especially through education and socialization that provide knowledge to the public about Islamic finance and banking and the economy. This is in line with sustainable economic development that has social and social value (Umida, Anggriani & Zulfikar, 2024).

Challenges and Opportunities in Economic Aspects

The economic dimension of sustainable development emphasizes inclusive and sustainable economic growth by encouraging economic growth that does not harm the environment and can provide benefits to all levels of society. The challenges faced by Islamic banks in the economic aspect related to sustainable economic development are related to sustainable financing and environmentally friendly investments. Similar to banking in general, Islamic banking also runs loan or investment programs. One part of Islamic Banking that is in line with sustainable economic development is the Islamic Banking Environmentally Friendly Investment Program.

The challenges faced by Islamic banks in sustainable finance relate to investment and financing decisions and the need to clarify the scope of project activities to be financed by Islamic banks (Dewi, Helmi, Henmaidi and Yaswirman, 2023). Islamic banking has the right to reduce loans depending on the extent to which the project activities financed by the bank have an impact on the environment. Islamic banking is not yet very popular in society because the public's own understanding and awareness of the concept of Islamic banking is still lacking. In fact, there are restrictions and reductions in the distribution of bank credit for projects that have a negative impact on Islamic banks themselves and cause Islamic banks to lose customers.

However, Islamic banking can take another opportunity, namely by focusing on providing loans to sustainable projects where they do not have a negative impact on the environment (Dewi, Helmi, Henmaidi, & Yaswirman, 2023). Islamic banks can provide bank loans for projects that have a vision and mission to encourage sustainability, so that Islamic banks can filter more in financing bank loans for various incoming loan projects.

However, Islamic banks can take advantage of other opportunities by focusing on financing sustainable projects that do not have a negative impact on the environment (Dewi, Helmi, Henmaidi & Yaswirman, 2023). Islamic banks can provide bank loans for projects whose vision and mission are to promote sustainability, thus enabling Islamic banks to better screen bank loans for various incoming financing projects.

Sustainable development supports sustainable growth by balancing economic, social and environmental benefits. Banks should make green investments for risk management that considers social and environmental factors in line with sustainable finance. These initiatives

aim to prevent business practices such as lending, borrowing and project investment that consume excessive resources and can damage the environment, as well as banking activities that damage the environment. Islamic banks can strengthen their role in environmental management by enforcing sustainability laws and regulations, even though the banking industry itself is not directly involved in environmental issues.

However, the challenges faced by Islamic banks in maintaining financial and economic stability are still complex, especially in managing risks related to the structure of Islamic products and services. However, this can also be overcome through strict supervision and effective risk management to ensure that Islamic banking operations are stable and sustainable in facing complex market dynamics (Umida, Anggriani & Zulfikar, 2024).

Challenges and Opportunities in Environmental Aspects

The environmental dimension in sustainable economic development focuses on environmental conservation and biodiversity, with the aim of reducing emissions and pollution from the banking sector. To achieve sustainable economic development, Islamic banks also carry out green economic activities that prioritize environmentally friendly practices. Their responsibilities include digital transformation of banks and the use of technology in banking products. Digital transformation such as mobile banking, which is a digital banking product, aims to facilitate customer transactions and stay informed through the features offered. This product has advantages and functions that can be used directly by customers, and is part of the implementation of green banking, such as reducing paper use and paperless banking. Although the digital transformation of banks will bring significant benefits to the banking industry, the environmental impacts caused by digital banks are still not covered. These environmental impacts certainly pose a challenge for Islamic banks (Suharto & Lestari 2022).

The challenges faced by Islamic banking in the digital transformation of banks to support the green economy to realize sustainable economic development are the high carbon produced by digital banks, which causes environmental pollution and emissions. According to a journal written by Umida, Anggriani, & Zulfikar (2024), it explains that advances in information and communication technology (ICT) provide potential for the development of Islamic banking, but this also has a negative impact on the environment due to carbon pollution produced by this technology, which can damage the sharia principles of Islamic banking itself.

Then the opportunities that can be used to overcome these challenges are in the form of developing information and communication technology that is more environmentally friendly, such as mobile banking that does not drain a lot of data so that carbon emissions are not too much and also the use of dense vegetation with high CO₂ absorption such as red palm tree shoots to reduce the amount of gas emitted by banking offices because in banking activities of course a lot of technology is used and causes a lot of carbon to be produced, this of course also causes environmental problems.

In achieving sustainable economic development, several Islamic banks in Indonesia have actually taken advantage of several opportunities from the challenges faced by Islamic banking operations. As explained in Lelawati, Darmayanti, and Nusantara (2023), Islamic banks in Indonesia have made efforts to support green banking by introducing paperless banking, saving electricity and water, and utilizing plants to reduce gas emissions.

CONCLUSIONS

Sustainable development is urgently needed in light of global challenges such as poverty, climate change, and inequality. Islamic finance is blessed with Sharia principles and has great potential to contribute to the achievement of sustainable development goals through

the introduction of a green economy and environmentally friendly practices. Despite challenges such as regulatory complexity and the need for product innovation, the use of information and communication technology can improve the efficiency of Islamic financial institutions and reduce their environmental impact. Additionally, effective Zakat management can play a crucial role in reducing poverty and balancing income. Green Sukuk also plays an important role in achieving financial inclusion and social responsibility, and assists Islamic countries, particularly, in achieving the Sustainable Development Goals (SDGs) set forth. Clear regulations are also needed to ensure that institutions such as micro-sharia operate with high transparency and accountability, thereby maintaining customer trust and contributing to sustainable economic development in Indonesia. Furthermore, practical policies are needed to establish Islamic financial regulations so that their contributions are more beneficial in achieving sustainable development in Indonesia.

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