THE ROLE OF SHARIA ECONOMICS IN SUPPORTING RURAL ECONOMIC DEVELOPMENT

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Abstract

Village economic development is an important foundation in efforts to realize community welfare evenly in the country of Indonesia. However, there are still many villages that experience challenges in the form of limited access to finance, low economic literacy, and social inequality. Sharia economy comes as an alternative solution by offering a fair, transparent financial system based on the principles of social justice, sustainability, and social responsibility. This research uses a literature study method with a descriptive qualitative approach to analyze the role of Islamic economics in supporting village economic development. The results show that the application of Islamic financial instruments such as Baitul Maal wat Tamwil (BMT), zakat, infaq, sadaqah, and productive waqf is effective in encouraging the development of MSMEs, increasing economic independence, and strengthening the social capital of rural communities. In addition, the synergy between Islamic financial institutions, the government, and the community is the main key in creating inclusive and sustainable rural development. Thus, the integration of Islamic economics in village development strategies has the ability to accelerate the achievement of sustainable development goals (SDGs) in Indonesia.

Key words: *Sharia Economy, Village Economic Development, Inclusive Finance*

Introduction

Village economic development is one of the most important pillars for realizing wellbeing in Indonesian communities. Villages as the smallest government forces have great potential for natural resources and people, but are often not optimally utilized due to low economic inequality between villages and cities due to limited access to capital. In this context, Islamic economics can be used not only as a financial system based on judicial values and unity, but also as an alternative solution to promote integrated and sustainable economic development. Village economic development is a strategic agenda in realizing national welfare and equitable development outcomes in Indonesia. However, many villages still face challenges such as limited access to finance, low economic literacy, and social inequality. Islamic economics offers a holistic approach based on the principles of justice, transparency, and social responsibility. According to Ferdiansyah et al., (2023) Islamic economics as a system of life that is universal, integrated, and comprehensive is able to form an ideal human life order, including in the aspect of village economic development. Harahap (2023)) argues that the village economy plays an important role in this institution not only providing financial services, but also promoting the application of fair financial principles and oriented towards sustainable development (Trimulato et al., 2021) . Villages, as the smallest government entity, have great potential that includes the wealth of natural resources and the capacity of their human resources. However, the utilization of this potential is often hampered by obstacles such as limited access to financing, economic inequality, and a financial system that has not reached all levels of rural society equally. Sharia Economics is based on the principles of Islamic law as justice, transparency and mutual cooperation. According to Ferdiansyah et al., (2023) The philosophical foundations of Islamic economics in economic development include Lebubiya (God is the creator and humans on earth as khalifah on earth, growing with equality), and tazkiya (self and environmental processing). They highlighted the importance of applying Islamic economic principles in improving the welfare of rural communities and promoting inclusive economic growth. In undertaking village development, these principles are particularly relevant as village communities generally uphold the values of mutual cooperation and social solidarity. In addition, the principles of justice and sustainability are the main focus in Islamic financial institutions, not just providing financial services. According to Mulyadi (2023) this is in line with a broader development mission as part of the human caliphate on earth that must be accounted for. Islamic financial institutions are also able to create a perfect order of life in the village because of its universal approach (Ferdiansyah et al., 2023) . Economic development according to Islam is not only oriented towards material growth, but also includes spiritual and social aspects. According to Nurcholis Madjid (in Mulyadi, 2023) emphasizes that development is the implementation of duties as a caliph on earth which will later be accounted for before God. This requires development that not only pursues worldly welfare, but also ukhrawi welfare. In this case, the Islamic economic system emerges as an alternative that does not only focus on profit, but also prioritizes the values of social justice, sustainability and shared prosperity. Islamic principles such as justice (*'adl*), mutual assistance (*ta'awun*), and the prohibition of usury practices are the basis of an inclusive and relevant Islamic economic approach to address the challenges of rural development. The utilization of instruments such as Baitul Maal wat Tamwil (BMT), zakat, infaq, sadaqah, and productive waqf can be the main drivers in the development of MSMEs and the improvement of the living standards of rural communities if managed properly. Through the sharia economic framework, rural economic development is directed not only to achieve growth, but also to realize fair distribution, community empowerment, and economic independence. Therefore, the application of sharia principles in village development strategies is a strategic step towards the creation of empowered, advanced, and prosperous villages.

Methods

This article uses a research method, namely the literature study method (*library research*) with a descriptive qualitative approach. This method is used because the research aims to examine and explain the role of Islamic economics in supporting village economic development based on data and findings that have been published in various recent scientific sources. The literature study allows researchers to obtain a comprehensive picture of the development, challenges, and opportunities for the implementation of Islamic economics in villages without directly collecting field data. According to Arifudin et al (2022) in its implementation, researchers usually collect secondary data from scientific books, accredited national journal articles, theses, theses, dissertations, and various related sources, both available in print and online. The data collection process for this research was conducted by searching and selecting literature related to the topic of Sharia economy and village development. The researchers used trusted online sources such as various national magazine databases, digital libraries, and Google Scholar and University Journal portals. Any literature used has been systematically recorded and documented as part of the effort to maintain the validity and accuracy of the data (Mulyadi, 2023) . The data recording method for this literature study was carried out through a process of searching, selecting, and documenting written sources that discuss the role of the Sharia economy in rural economic development. As described by Amir Hamzah in Rahayu (2020), literary research data records are an attempt to collect information on the topic under investigation from both books, dictionaries, journals, encyclopedias, papers, regular publications and other sources. Furthermore, the data that has been collected is analyzed qualitatively descriptively. The analysis was carried out by reading and reviewing in depth the contents of the literature, then reducing the data to sort out relevant information using the research emphasis. The reduced data were then coded and grouped into main themes, such as the work of the sharia financial forum, sharia banks, the concept of sharia self-sufficient villages, and their impact on village economic development (Rahayu, 2020). After that, the categorized data were analyzed and interpreted to draw conclusions about sharia economic donations in village economic development. The results of the analysis were compiled in the form of a structured and in-depth scientific narrative.

Results and Discussion

Village economic development is an important foundation in realizing community welfare equally in Indonesia. Villages as the smallest unit of government have a strategic role in sustaining the national economy through agriculture, livestock, fisheries, and the development of micro, small, and medium enterprises (MSMEs). However, in reality, many villages still experience limitations in optimizing this potential. One of the main obstacles is limited access to fair and sustainable sources of financing. In this context, Islamic economics is present as an alternative economic system that is not only oriented towards material benefits, but also places the values of justice, transparency, and social sustainability as the main foundation. This is in line with the view of KNEKS in Ahmad et al (2021) which emphasizes that Islamic economics can be a major driver in accelerating national economic development, especially in areas that are still lagging behind, including villages in Indonesia. In addition, Islamic economics offers a holistic development approach, integrating spiritual, social and economic aspects in harmony. As stated by Septian (2024) , sharia principles such as the prohibition of usury, justice in distribution, and social responsibility are very relevant to be applied in the context of rural development that still faces social and economic inequality. These values are in line with the culture of rural communities that still strongly uphold the principles of mutual cooperation and social solidarity. Therefore, the application of Islamic economics not only provides financial solutions, but also strengthens social capital, which is the main capital in the development of rural communities. In addition, the development of Islamic economics in villages cannot be separated from the role of Islamic financial institutions and Islamic social instruments such as zakat, infaq, sadaqah, and productive waqf. According to the Sharia Economic Council (MES, 2021), these institutions function as the driving force of the sharia economy that is able to reach rural communities directly, provide financing in accordance with sharia principles, and provide sustainable business assistance. Optimizing sharia social funds is also an important instrument in alleviating poverty and increasing the economic capacity of rural communities. Thus, the Islamic economy not only acts as a financial system, but also as an inclusive and sustainable development framework. According to Syukron et al (2024) The development of the agricultural sector as a step towards realizing food sovereignty must be strengthened to ensure efficient and independent food availability from the production stage to consumption. In an effort to achieve prosperity, there are various challenges that need to be overcome through the implementation of various strategies and close collaboration between the government and all elements of society. The Islamic economic approach that prioritizes justice and sustainability is very relevant to encourage inclusive and sustainable rural agricultural development. KNKS (2019) also underlines that Islamic financial instruments such as salaam contracts, mudharabah, musaqah, and productive waqf have the potential to be used in financing the agricultural sector. For example, salaam contracts used to finance agricultural products allow farmers to obtain capital fairly without having to be entangled in interest, thereby increasing the productivity and welfare of rural farmers. Optimizing waqf funds and Baitul Maal wat Tamwil (BMT) are also sustainable financing alternatives for the agricultural sector in villages (KNKS, 2019). In addition, research in Bojonegoro in Trimulato et al (2021) states that Islamic Banks have an important role in the economic empowerment of rural communities by providing financial services in accordance with sharia principles. Islamic banks not only provide access to financing, but also prioritize the principles of justice and sustainability in every transaction. This increases villagers' trust in Islamic financial institutions and encourages the growth of micro and small businesses that form the backbone of the village economy. Bank Syariah lending in Bojonegoro, for example, has increased significantly in the last five years, which has had a positive impact on the development of farming, handicrafts and other productive economic sectors. According to Imsar et al (2023) mentoring and education provided by Islamic Banks also help villagers better manage business finances, thereby increasing productivity and household income. Thus, the role of Islamic financial institutions is not only limited to the financial aspect, but also strengthens the overall economic capacity of the community. According to Afrianty et al (2020) the contribution of Islamic financial institutions in strengthening the economic independence of rural communities has also been proven, they emphasized that Islamic financial institutions serve as the first step for rural communities in advancing their businesses to be more developed and independent. Asset transfer, fair transactions, maintained liquidity, and efficient financial management are important aspects that are strengthened by Islamic financial institutions. This contributes to the overall development and growth of the national economy. In addition to financial and economic aspects, Islamic economics also supports sustainable development by applying the principles of ethics and balance. According to Hartati et al (2024) Islamic economics (Ekis) has a strategic role in realizing sustainable development based on social justice and environmental responsibility. This is very relevant to the situation in the village which is closely related to the management of natural resources and the preservation of the environment in a sustainable manner. Therefore, the Islamic economy not only contributes to the economic growth of the village, but also to the achievement of sustainable development goals (SDGs) which include poverty alleviation, welfare improvement, and environmental preservation. The synergy between Islamic financial institutions, local governments, and rural communities is a major factor in creating inclusive and sustainable rural economic development. In this context, the National Committee for Sharia Economics and Finance (KNEKS) emphasized that the integration of sharia economy into the National Medium-Term Development Plan (RPJMN) is a strategic step to strengthen the contribution of sharia economy in sustainable development in Indonesia. Through collaboration between various stakeholders, including regulators, financial institutions, and local communities, the Islamic economy is able to bridge the gap between the conventional economy and the socio-economic needs of rural communities (KNEKS, 2025).

In addition, the role of Islamic financial institutions such as Baitul Maal wa Tamwil (BMT) and the National Zakat Agency (BAZNAS) in empowering rural communities is very relevant. Through synergies built with the government and the community, these institutions not only provide access to financing in accordance with sharia principles, but also conduct business assistance, financial literacy training, and social programs that increase the economic independence of rural communities. In their research Azizah et al (2023) on BMT Assyafiiyah in Kota Raman Village showed that mudharabah, murabahah, and qardhul hasan-based financing and social programs from zakat, infaq, and sadaqah funds contributed significantly to improving the welfare of village communities. In addition, Detasya (2024) said about Baznas Microfinance Desa (BMD) Bojongrangkas found that this activity effectively expands access to mustahik micro business capital and encourages economic growth and independence of rural communities through productive zakat funds.

Conclusion

Islamic economics plays an important role in supporting economic development in Indonesian villages by providing financial solutions that are fair, transparent, and based on the principles of social justice, sustainability, and social responsibility. The implementation of Islamic economics at the village level is able to overcome various obstacles such as limited access to financing, low levels of economic literacy, and social inequality through various financial instruments such as Baitul Maal wat Tamwil (BMT), zakat, infaq, sadaqah, and productive waqf which have proven effective in encouraging the development of MSMEs and improving community welfare. Islamic financial institutions also play a significant role in providing assistance, education, and access to capital in accordance with sharia principles, thus helping to strengthen the economic independence and productivity of rural communities. Therefore, the government and related parties need to strengthen cooperation with Islamic financial institutions to expand access to sharia-based financing, especially in the agricultural and MSME sectors.Increasing Islamic economic literacy through training and mentoring should be the main focus so that people can make the most of Islamic financial products and services. In addition, maximum efforts need to be made to utilize sharia social funds such as zakat, infaq, sadaqah, and waqf to increase the economic empowerment of rural communities, especially in supporting micro businesses and poverty alleviation programs. The development of innovative Islamic financial products and services tailored to the needs of people in rural areas, such as financing with salam, mudharabah, and musyarakah contracts, is also very important. Close synergy between the government, Islamic financial institutions, and local communities in planning and implementing sharia-based village development programs is a key factor so that the benefits can be enjoyed fairly and continuously, while supporting the achievement of sustainable development goals (SDGs).

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