

# Islamic Microfinance Institutions

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**Islamic Microfinance Institutions, Indonesian Economic Democracy, and Development (A Maqashid Approach System Perspective)**

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**Abstrak,**

Tulisan ini bertujuan untuk mengelaborasi konsep teoritik ekonomi syariah, demokrasi ekonomi, dan pembangunan di Indonesia. Identitas ekonomi masyarakat dipengaruhi oleh agama, budaya, dan unsur nilai lainnya yang meliputi sistem kehidupan, termasuk ideologi negara. Nilai agama, konstruksi budaya, ideologi negara dan atau gabungan nilai dari ketiganya semestinya tidak dihadapkan dengan pembangunan. Inilah tawaran substansial Auda yang mengaitkan *maqasid al-shariah* dengan teori sistem dalam menguatkan keutuhan berpikir dalam studi Islam. Dalam bidang ekonomi, Chapra menguatkan *maqashid sistem Auda* dengan mengaitkan konsep development dengan kajian *maqashid syariah*. Ekonomi syariah, sistem kemasyarakatan, dan ideologi negara semestinya dapat dipadukan untuk meraih economic welfare. Untuk itu, *maqashid syariah system approach* tawaran metodologis untuk melihat secara utuh eksistensi lembaga keuangan mikro syariah, demokrasi ekonomi, dan pembangunan.

Kata Kunci: *ekonomi syariah, demokrasi ekonomi, maqashid, pembangunan, kesejahteraan.*

**Abstract,**

This study aims to expand on the theoretical notions of sharia economics, economic democracy, and Indonesian development. Economic identity is influenced by religion, culture, and other valuable components of life, including the state's ideology. Religious ideals, cultural constructions, governmental ideology, and/or a synthesis of these values should all be protected from development. This is Auda's considerable offer, which connects *maqasid al-shariah* with systems theory to bolster Islamic studies' intellectual integrity. The Shariah economy, social system, and state ideology should be united to attain economic welfare. As a result, the *maqashid syariah system approach* provides a methodological framework for examining the existence of shariah microfinance institutions, economic democracy, and development in their entirety

Keywords: *sharia economy, economic democracy, maqashid, development, welfare*

## **INTRODUCTION**

Islamic economics (shari'ah) in Indonesia is intricately related to the country's historical and political context. It is accepted that the development of Islamic banks in Indonesia has been relatively delayed in comparison to neighboring countries such as Malaysia and Brunei, despite the fact that Indonesia's Muslim population is more than double that of the two previously mentioned nations. Indonesian officials, on the other hand, have promoted the rhetoric of Islamic economics both domestically and internationally since Indonesia's independence. This discussion continued until the late 1970s and culminated in the early 1990s (Muh Salahuddin, 2017). Islamic banking has historically represented less than 5% of total national banking assets. This indicates that there are still numerous market opportunities that Islamic economic institutions must explore in order to participate safely in the national economy.

Islamic ideology is still considered risky to apply on a national level, particularly in economic terms. While this is still contested, history demonstrates that Islamic ideology carved out its sad history (Muh Salahuddin, 2019a). Terrorism is closely related to hard-line Islam, which is destroying public trust in Islam, particularly at the moment. Islam, which is inclusive and tolerant, appears to be a meaningless word in contemporary culture. Diverse packaging equates to a diverse range of contents. This is a paraphrase of the well-known slogan *al-Islam mahjubun bi al-muslimin*. Muslims do not explore their theological beliefs, which is why they are misinterpreted by 'others,' who subsequently affect the community's perception of Islam. Islam, as it currently exists, is an empirical Islam designed to confuse Muslims over its teachings. (Muh Salahuddin, 2012). This holds true for economics as well.

Islamic economics was theoretically established by emphasizing moral principles over economic prosperity. Moral principles and economic objectives are conceptualized within the framework of *maqashid syariah*, which serves as the foundation for *ijtihad*. Islamic ideology allows for the development of anything linked to human relations as long as it does not clash with ethical and divine ideals. This is what Auda accomplished in order to relate the concept of Islamic originality to universal principles recognized as systemically functional in the human life system (Jasser Auda, 2007). Amin formulates an argument for the integration-interconnection of culture and religion for the advancement of science (Amin Abdullah, 2014). The notion of integration-interconnection has been widely practiced in the development of Islamic economics in a number of Islamic countries; The concept of Islamic economics is being developed not only for religious reasons, but also for humanitarian reasons (Muh Salahuddin, 2019b).

In Indonesia, the concept of Islamic economic development was developed prior to the country's independence. Cooperatives, democracy, justice, kinfolk, and togetherness are just a few of the Islamic-inspired principles that have shaped Indonesia's economic development. Islamic economics exists in the form of formal institutions today as a result of the Indonesian people's intellectual and political struggle (Muhammad Salahuddin et al., 2019). Today, Indonesia's Islamic economy is fully integrated into the country's economic structure and is backed by social, religious, governmental, and educational organizations. (Muh Salahuddin,

2017). Islam presents an economic philosophy centered on divinity, justice, equality, and mutual assistance through its beliefs and doctrines (Chapra, 2000).

Economic theory in Islam is primarily based on two fundamental teachings found in the negative and positive doctrines. The negative philosophy begins with the prohibition of usury, which Keynesians view as a cause for the economic collapse of society. Positive ideology is encapsulated in zakat, infaq, and sadaqah orders, which act as a catalyst for community consumption disequilibrium (N-Nabhani, 1999). These two forces interact to ensure that society achieves its maximum economic wellbeing. (Muh Salahuddin, 2019a). On the one hand, there is an endeavor to conquer individuals from the constraints of a productive economy while still ensuring that they contribute considerably to societal welfare through zakat money (Aziz et al., 2019). This indicates that individual liberty is inextricably linked to social obligations from an ethical standpoint. This attachment is regulated through a system mechanism, which is intrinsically linked to the government's role in ensuring the systems' sustainability.

The major challenge for economists, intellectuals, bureaucrats, and politicians, as well as for all other segments of Islamic society, is to find a means to integrate the sharia economy into the current stage of national economic development. This is necessary in the context of Indonesia. Pancasila Economics does not confront the Islamic economy intellectually, which has a political ramification and results in something opposed to Islamic economic ideals. Islam is no longer a 'scapegoat' in the history of Indonesia. One of the most critical aspects of recovering the sharia economy's image is empowering shariah microfinance (bait al-mal wa tamwil) organizations that operate at the micro- and real-sector levels of the community's economy (Muh Salahuddin, 2019b). This institution serves as the grass-roots 'mouthpiece' for the sharia economic movement, voicing Islamic economics in a broader sense.

## **LITERATURE REVIEW**

### **1. Maqashid Shariah: The Sustainable Concept**

Academics recognize that each dictum (command, prohibition, and recommendation) in the Qur'an and hadith has a purpose, whether explicit or implicit, that demands scientific investigation. Al-Syathibi concluded that the dictum's major goal was to ensure the wellbeing of servants (humans) in both this world and the hereafter (Jasser Auda, 2007). It's only that there are numerous new challenges that modern humanity encounter that are not covered in the Koran-hadith. Nash has been disclosed, but occurrences never cease; text and context development are constrained. (Muh Salahuddin, 2017). This is the substance of Syathibi's concept, the *sukut al-syari'* analysis, or in Qaradlawy, *al-ijtihad fima la nassha fih* (Hallaq, 2004).

The essence of maqashid al-shariah is *maslahah*, which is measured by five primary indicators: protection of religion (*hifz al-din*), protection of soul (*hifz al-nafs*), protection of intellect (*hifz al-'aql*), protection of posterity (*hifz al-nasl*), and protection of wealth (*hifz al-mal*). The above indicators are produced in accordance with the evolution of human requirements. Protection of the environment (Ikhwanuddin, 2020), sustainable development (Auda, 2007) is also included as part of the *maqashid al-shariah*.

Imam al-Juwaini established academic-historical maqashid al-shariah, which was refined by Abu Hamid al-Gazali utilizing the concept of *mabadi 'al-khamsah*. Imam al-Shathiby reconstructed the concept of *maqashid al-shariah*, which became a reference for thinking in the development of modern Islamic thought (Muh Salahuddin, 2017). Auda extends the concept of *maqashid al-shariah* by incorporating it within systems theory. (Auda, 2008). According to Auda, Islam, with all of its means, must engage in discourse with the system in which it exists (Muh Salahuddin, 2012). The estuary is referred to as *maslahah* in all maqashid studies, which al-Gazali categorizes as *maslahah mu'tabarah*, *maslahah mulgah*, and *maslahah mursalah*. These three *maslahah* notions are then used as a framework for future thought.

Al-Thufi is a thinker who reconstructs the concept of *maslahah* with the postulation below, that *first*, the human mind is able to identify the value of *maslahat (istiqlal al-'uqul bi idrak al-masalih wa al-mafasid)*, *second*, *maslahah* is a proposition that is independent of the text (*al-maslahah dalilun mustaqillun 'an al-nusus*). *Third*, the scope of the *maslahah* area in the field of *muamalah (majal al-'amal bi al-maslahah huwa al-mu'amalat wa al-'adat duna al-'ibadat wa al-muqaddarat)* *Fourth*, *maslahah* is the strongest legal proposition (*al-maslahah aqwa adillat al-syar'i*) (Purwanto, 2014). Al-thought Thufi's is contextualized by change, which is logically supported by Islamic studies methodology (ushul fiqh). The notion of maqashid al-shariah thinking evolved from this, in conformity with changing periods and societal behavior.

In terms of the economics, the aforementioned notion of thinking is employed to address the community's economic demands, which are not only material but also encompass dimensions of human spirituality and sustainability (Sapa et al., 2020). Economic democracy is the people's voice, which has been conceptualized and requires development in order to respond to the declaration that Islam is a kindness to all of nature.

## **2. The Maqashid Perspective on Shariah Economic**

Since the 1940s, Muslim scholars throughout the world have conducted extensive research on Islamic economics, examining it from social, political, interpretation, fiqh, historical, and philosophical perspectives. However, the accord on the Islamic economy remains 'floating' to this day. According to Iqbal, the dispute over the nature and need for Islamic economics and finance as an alternative paradigm has not been resolved yet.' However, the sharia economy operates in practice while seeking the appropriate patterns and models for achieving economic objectives (Amalia, 2009).

Economic problems are inherently complicated, and so cannot be resolved just through economics. Due to its complexity, economics requires additional research techniques to accomplish its objectives. The terms multidisciplinary, intra-disciplinary, inter-discipline, integration-interconnection, and scientific integration are all well-known in scientific jargon. In Islamic economics, knowledge of religion (Islamic law/fiqh), jurisprudence, social science, political science, economics itself, and other subjects that are directly or indirectly relevant to economic problems is required. According to this logic of thought, someone who thinks and develops Islamic economics is someone who thinks

systemically for a variety of reasons, including the following: *First*, theoretically the search for the concept of Islamic economics is an effort to fulfill basic human needs based on the basic instincts (*fitrah*) of humanity which are based on the values of God that exist within them. *Second*, in the framework above, a coherent, consistent, comprehensive, and holistic reconstruction and restructuring is needed to arrive at the 'point' of truth and justification. *Third*, the above efforts require the integration of various lines to form strengths and realize advantages in the context of their application. In other words, that Islamic economics must be developed based on a clear ontology, a strong epistemology, and in an axiological framework that may be felt by everyone, not only Islamic groups. The major idea of the presence of Islamic economics is *rahmat li al-'alamin* which is based on the divine value that exists in human.

Baqir al-Shadr wrote that Islamic economics is not an economics science, but a school of economics (Al-Shadr, 2003) Islamic economics is faced with the system (school) of capitalism, socialism and communism for its failure to create prosperity for mankind (Al-Shadr, 2003). Al-Sadr in his work provides a moral-ethic framework in the application of Islamic economics, as well as theological resistance to concepts that do not originate from Islam.

In simple terms, Mannan wrote that Islamic economics is a social science that studies problems related to the economics of society inspired by Islamic values (Manan, 1980). The preceding concept encompasses a vast array of activities and economic theories. In this context, Mannan's definition has not yet established a characteristic of Islamic economic theory. The most obvious implication of the above definition is that Islamic economic theory and practice can copy, or modify economic theory and practice from anywhere by adding value aspects originating from Islam (divine authority). Mannan asserted that there is a heavenly potential (value) that is currently divorced from contemporary economic activities. This is what distinguishes Islamic economics from other economic concepts (Manan, 1980). The ontological, epistemological, and axiological framework of Islamic economics is built from the process of deduction from the texts and at the same time from the process of induction through *ijtihad* in a certain social system, from which we can conclude that economic models, patterns and concepts are fixed and always rely on divine reality (Manan, 1980). In this case, Manan does not offer a distinct concept of Islamic economics, but provides color and soul in universal economic activity, as it should be known and practiced in general by the community by incorporating Islamic values..

According to S.M. Hasanuz Zaman, Islamic economics is a science, a practice, and a law. In complete, he stated, 'Islamic economics is the knowledge, applications, and norms of the shariah that prohibit injustice in the acquisition and disposition of material resources in order to satisfy human beings and enable them to fulfill their commitments to Allah and society. From the definition above, Mannan efforts to structure Islamic economics from both an ontological, epistemological, and axiological perspective. Although he did not explicitly point out which aspects of the ontology, epistemology, and axiology of Islamic

economics. By the time, this economic activity must be integrated into the framework of the servant's surrender to God. <sup>3</sup>

M N. Shiddiqi wrote that Islamic economics is the moslem thinker's response to the economic challenge of their times. In this endeavor they were aided by the Quran and the sunnah as well as by reason and experience. The definition put forward by Shiddiqi is a sociological definition of Islamic economics. It serves no economic purpose; rather, it demonstrates that Islamic economics arises as a result of its believers' anxiety over the fragility of the world economic system currently in use. As a result of this fear, Muslim philosophers developed economic solutions based on a knowledge of moral norms derived from the Koran and Sunnah.

Chapra places more emphasis on the fairness aspects of production, distribution, and consumption in Islamic economic studies (Chapra, 2000). He wrote that Islamic economics is a branch of science which helps to realize human welfare through the allocation of limited resources which are still confirmed by Islamic teachings without individual restraint to create economic balance and ecological sustainability. The basis of the analysis is the economic failure of the capitalism and socialism systems, and then analyzes these failures by using the theory of *maqasid al-syari'ah* (Chapra, 2000), especially the theory developed by Imam Abu Hamid al-Gazali and Ibn al-Qayyim al-Jauziyyah (Chapra, 2000). As with Mannan, Chapra has not provided a comprehensive analysis of Islamic economics. It's just that he makes a good offer, which distinguishes the Islamic economic system from other economic systems, namely that Islamic economics is based on divine values (*tawhid*), *khilafah* (representation), and *'adalah* (justice). These three are theoretical bases that must be developed properly to meet economic goals (Chapra, 2000). Rahardjo wrote that Islamic economics is the knowledge and application, commands and procedures (rules) stipulated by sharia that prevent injustice in the extraction and use of material resources to meet human needs that enable them to carry out their obligations to Allah and society. (Rahardjo, 1999). The prosperity of society in the concept of Islamic economics is only possible through monotheism, kinship or brotherhood, togetherness/cooperation, work, productivity, ownership, and justice (Amalia, 2009).

In the preceding framework, Muslim thinkers' efforts to reconceptualize the economy are motivated by the goal of preserving human life (individual/group), which is founded on the concept of divinity and ethics. Economics as an instrument is the key as a control variable in the realization of *maqashid shariah*. Economic strength is the sole way to strengthen religion, the soul, the mind, property, and lineage. Economic strength is the sole way to strengthen religion, the soul, the mind, property, and lineage. Although it is not the primary factor, economic prosperity serves as a catalyst for the realization of *maqashid shariah*. This therefore serves as the catalyst for the spread and strengthening of Islamic economics as a concept.

Poverty, illiteracy, and backwardness inspire Islamic intellectual communities to grow and create economic ideas. In the 1940s, a variety of individuals expressed opinions that spread around the globe and impacted Muslims' combat practices. Political inspirations for

the Islamic world include Jamaluddin Al-Afghani, Abu al-'Ala Al-Maududi, and others. Al-Maududi also addressed economic issues, most notably the modern economic system's inadequacies and the problems associated with usury. His beliefs later developed into what became known as Bayt al-mâl wa at-tamwîl, which was founded in 1969 in Egypt by Abdul Hamid An-Naghar (Chapra, 2000). The existence of this institution acts as a springboard for the restoration of Islamic economic institutions in the modern world, particularly in Indonesia.

## **METHODS**

This study is a literature search that relates the concept of shariah economy to the context of Indonesian economic democracy. The conceptual combination of the two is expected to make a positive academic contribution to the theoretical development of shariah economics. Data collection is done by library searching, either by using the offline-online library. The data collected is classified according to research needs, compiled, and analyzed to construct thoughts according to the written theme. The construction of thought is discussed with several experts in the field of economics, compared, and then concluded as a complete concept.

## **DISCUSSION**

### **1. The Concept of Indonesian Economic Democracy**

Following Indonesia's independence, the ideological (and economic) struggle to develop the country has been relatively difficult to explain; Indonesia's development ideology remains dim until today. Indonesia had lost its ideology in the development process because of pragmatism, sectoral, and temporary interests. Therefore, Indonesia as a big country needs to emphasize identity in economic development.

Whether we like it or not, when we discuss Indonesia's economic development, we must refer to article 33 of the 1945 Constitution. In the article, it is stated explicitly that 1. The economy is structured as a joint effort based on the principle of kinship, 2. The state controls production branches that are vital to the state and have an impact on people's livelihoods. 3. The earth, water, and natural resources contained within are governed by the state and are utilised to maximize human prosperity. This indicates that the economy is planned by state entities rather than being self-organized. The economy is not left 'free,' but is regulated by the government. This essay demonstrates that the Indonesian economic school is anti-'free market, invisible hand,' anti-capitalist-liberalism, anti-global capitalism, and anti-economic imperialism (Muhammad Hatta, 1987). Indonesia's economic orientation places a premium on people's livelihoods, with a strong assertion that natural resources should not be monopolized by individuals or organizations. Indeed, property rights will operate socially when they are linked to the demands of a large number of individuals.

Indonesia was founded as an independent republic on the principles of cohesion, integralism, and social consent. As a result, the community's interests must take precedence above individual interests. However, an individual's dignity must be preserved and protected. (Baswir, 2000). This fundamental doctrine of our country is reaffirmed by experts in order to



respond to and strengthen understanding of the new welfare state, which is guided by principles other than neo-classical, the antithesis of the concept of a free market (the end of laissez-faire, which derives from Adam Smith's self-interest doctrine. The new school of economics opposes the ruthless free market and globalization's greed. The new school of economics requires moral-ethical action in previously overlooked economic activity.

Bung Hatta delivered moral-ethical thinking in economics since 1934 (Swasono, 1988). Hatta's strong rejection of Adam Smith's self-interest and homo economicus was then continued by several Indonesian political-economic figures such as Mubiyarto, Sri Edi Swasono, Dawam Rahardjo, Amin Rais, Sritua Arif, Ichsanuddin Norsy, Rizal Ramli, and so on. This group of 'successors to Hatta' oversees the Indonesian economy.

In essence, Hatta's opinions are based on Article 33 of the 1945 Constitution. The article's central theme is an economic approach founded on brotherhood and community. To fully appreciate the importance of brotherhood, an entity commonly referred to as a cooperative is required. (Mohammad Hatta, 1954). This cooperative serves as a forum/means for the community to collaborate on economic growth. In a cooperative, all community members participate in the business's ownership, management, and supervision. Each member has the authority to direct and develop the cooperative's operations. The keys to cooperative economic development are each member's autonomy in building a business inside a cooperative forum and cooperatives' openness in accommodating the community's economic objectives. This is the essence of Pancasila economics: democratically organized, established, organized, controlled, and enjoyed economic activities. Economic prosperity is anticipated to be mutual.

Whether one admits it or not, the Indonesian economic model is largely influenced by socialism-Marxism. However, there is a process of filtering and interpreting the values of socialism-Marxism in the cultural context of Indonesian society. Hatta describes the following as the inspirator of Article 33 of the 1945 Constitution: *First*, Indonesian socialism emerged because of religious orders. Religious ideals that promote brotherhood and mutual assistance form the basis of socialism. In this instance, there is a 'marriage' of Western social democratic principles and Islam, resulting in the development of Indonesian socialism. Socialism here refers to an appeal to the soul, not to Marxism's dialectics. *Second*, socialism embodies the insurgent spirit of the Indonesian people who endured unjust treatment at the hands of colonialists. The spirit of the creation of Indonesian socialism is inspired by the conquerors' tyranny, injustice, and humiliation for hundreds of years. *Third*, Indonesian politicians who reject Marxism-socialism seek other forms of socialism inside their own country. Socialism is a soul demand that aims to establish a just and prosperous society free from oppression. Socialism, imbued with the spirit of a communal culture prevalent among Indonesian ethnic groups, has existed among Indonesian indigenous peoples; all that needs is to contextualize it within an Indonesian framework (Mohammad Hatta, 1963). This is the basic idea of Indonesia's economic democracy. It is adapting the values of the Western socialist revolution to Indonesian contexts, as articulated explicitly and methodically in the Indonesia's 1945 Constitution. (Prasetiantono, 2000).

## **2. Shariah Microfinance in Indonesia: The Evolution**

Sharia economic activity has been conducted culturally in Indonesia from the time of the Islamic sultanate. The establishment of the Indonesian Trade Association (SDI) in 1905 was a pre-independence entity that popularized Muslim commercial activities. Muhammadiyah also promoted the concept of cooperation in order to boost the community's economy through social movements. Sharia economic practice is part of the community's customs, because almost all regions of the archipelago adopt fiqh as a reference value in the practice of life (Muh. - Salahuddin, 2005). The Muslim community is well-known with the concept of mutual partnership (*musyarakah* and *mudharabah*) which is written in the fiqh doctrine. Economic Islam is dwindling in popularity in Indonesia, owing to the fact that Indonesian Muslims are frequently confronted with politics, which tends to marginalize Islam as a whole. Islamic economics, on the other hand, continues to grow in part outside of traditional government channels.

1991 was a watershed year for Islamic economic resurgence, owing to regional, national, and global forces. According to Rahardjo, various factors contributed to the establishment of a shariah economy in Indonesia: *first*, the rise of the petrodollar in Muslim-majority countries that dominate the world's oil supply, *second*, the maturation of consciousness regarding Islam's development in the nineteenth century, *third*, the emergence of new Muslim intellectuals educated in the modern era (Rahardjo, 1999). Islamic economics' position in Indonesia is further bolstered by domestic political circumstances; the interaction between ulama and government in the early 1990s. (H. Kara, 2005), it began in 1992 with the establishment of Bank Muamalat.

Along with Bank Muamalat's operations, Islamic microfinance institutions are expanding and being supported by the government (via the ministry of small and medium enterprises) in order to boost the people's economy at the grassroots level. Suharto founded the Independent Business Center (Pusat Inkubasi Bisnis) movement in 1995 with the goal of connecting Islamic microfinance institutions with the real sector of the community's economy. ICMI and the Sharia Economic Forum (FES) both support this initiative. From this point, Islamic microfinance institutions formed in Indonesia, which were then further regulated by Ministerial of SMEs. Islamic microfinance institutions are gaining strength in Indonesia as a result of legislation that ensure legal certainty in financial and commercial transactions, administered by both the Financial Services Authority (OJK) and the Ministry of Cooperation Small and Medium Enterprises.

Today the total number of Islamic microfinance institutions in Indonesia is 4,046. It is aided in part by local government measures that contribute to the acceleration of Islamic microfinance growth. (Muhammad Salahuddin et al., 2019). Islamic banking development also benefits the capital partnership of Islamic microfinance institutions.

### **3. Shariah Microfinance: Religious Collectivism**

In the 1990s, the rise of shariah microfinance in Indonesia paralleled the growth of Islamic financial institutions. Prior to the formation of shariah microfinance, the Indonesian Muslim Intellectuals Association (ICMI) conducted extensive research. One might argue that ICMI is the catalyst for the growth of shariah microfinance in Indonesia (Solehuddin, 2004).

The Small Business Incubation Center is responsible for guiding and developing the shariah microfinance institution, whose personnel are ICMI member.

Like other Islamic financial institutions, shariah microfinance was founded on philosophical, sociological, and juridical considerations. The formation of shariah microfinance is philosophically motivated by a desire to observe Islamic economic principles as outlined in the Qur'an, Sunnah, and fiqh. The underlying concepts of Islamic economics include monotheistic, justice, equality, liberty, mutual assistance, and tolerance. Additionally, mu'amalah values such as kinship, cooperation, generating possibilities for kindness, and assisting economically disadvantaged people serve as the primary foundation for constructing shariah microfinance in Indonesia (Basyir, 1996). Sociologically, the demand for shariah microfinance is based on the Indonesian people's reality, the majority of whom are Muslim groups. Shariah microfinance is a community demand that needs usury-free Islamic financial institutions. On this foundation, the early 1990s saw the rise of shariah microfinance.

Additionally, this institution's existence is supported legally by Law No. 7 concerning Shariah Bank and PP No. 72 of 1992, which has been reinforced by the passage of Law No. 10 of 1998 concerning Banking (Antonio, 2001) and Sharia Banking Law 21 of 2008. However, shariah microfinance in Indonesia is now perceived as being unable to properly address the country's fundamental economic difficulties. This is due to a variety of causes including the following: *First*, the lack of educated and professional human resources. *Second*, human resource management and the development of an entrepreneurial culture in our society are still weak. *Third*, relatively small and limited capital. *Fourth*, the level of trust of the people (community) is still weak. *Fifth*, academically, shariah microfinance has not been formulated proportionally and systematically. *Sixth*, Politically, shariah microfinance has not received widespread support in Indonesia.

Apart from that, as an independent commercial enterprise, shariah microfinance must be profit-oriented and work to promote members' welfare (business-oriented). Although shariah microfinance is not a social institution, it can be used to handle social monies such as zakat, infaq, sadaqah, grants, and waqf funds (social benefits). What is critical to note is that shariah microfinance must be self-sustaining through the active participation of the community in its development framework (people economic system). However, shariah microfinance is a public good, not the property of a particular organization or individual. As a result, this institution's responsibility and accountability must be transparent in order to continually preserve public trust (Djazuli, 2002).

The characteristics of shariah microfinance outlined above are identical to those of cooperative organizations established by leaders of people's economic defence. That the community is an active economic player; that there is no such thing as a worker-employer relationship; that workers can also be business owners concurrently; and so on. Cooperative institutions, on the other hand, do not administer social funds such as zakat, infaq, sadaqah, grants, and waqf. This is the primary distinction; shariah microfinance, according to its definition, is both a collection and development institution for community assets (Yunus, 1955). Shariah microfinance developed 14 centuries ago from the historical context of Islam

and has been adapted to present socioeconomic changes. Simultaneously, the cooperative is an Indonesian concept whose values are derived from Islamic values. Both shariah microfinance and cooperatives are economic institutions that provide chances for anyone seeking employment and economic development. As stated at the outset of the article, sharia economics and its different institutions are mutually compatible with Pancasila economics, though not entirely interchangeable.

Shariah microfinance, with all of its capabilities, may function in tandem with Pancasila economic doctrine to help national economic development, particularly in the administration of the real sector economy at the grass-roots level. The growth of shariah microfinance in the society is largely still hindered by a number of factors (Sadrah, 2004);

1. Human resources. Numerous shariah microfinance institutions are still managed mostly by unprofessional human resources. This requires ongoing training to ensure that the resources in shariah microfinance are always exposed to 'fresh air' when maintaining and developing shariah microfinance.
2. Management. This also applies to human resources, particularly those concerned with cultivating the entrepreneurial spirit in society. It must be acknowledged that the bulk of people in rural areas continue to lack education, and hence the information that fosters entrepreneurialism must always be nurtured.
3. Financial. Small and scarce funds are a significant issue for shariah microfinance.
4. Accountability. For some, shariah microfinance remains a source of temporary joy. As a result, public trust in this institution remains low.
5. Networks. This is a culmination of some of the previous weaknesses. Because human resources are scarce, management is haphazard, and trust is low, a weak network results. As a result, shariah microfinance institutions typically grow in size.

#### **4. The Future of Shariah Microfinance**

Today, the sharia economy encompasses components of halal cuisine, fashion, tourism, hospitality, and a variety of other economic divisions. The development items listed above are enterprises that have been developed by members of the community. The federal and regional governments have also regulated and controlled some aspects of halal tourism. Naturally, this presents an opportunity for Islamic microfinance institutions to play a larger role in the national economy (Hakim, 2020). Another issue is one of digitalization and network expansion. Digital and network skills are critical components of modern business development and must be owned by business developers (Arham, 2020). They have proclaimed themselves as halal tourism developers in several regional government provinces, including West Sumatra, South Sulawesi, and West Nusa Tenggara. This presents both an opportunity and a challenge for Islamic microfinance institutions to increase their involvement in national development.

Indonesia was declared an icon of global sharia economic development in the national sharia economic development blueprint. Naturally, cooperation between the government and Islamic financial institutions at each level unit is necessary. According to current data, there are 14 Islamic commercial banks and 20 Sharia Business Units, totaling 2474 offices and

employing 55,900 people. (OJK, 2021). This also demonstrates that Islamic microfinance institutions already have strong partners in terms of cash, regulatory support, and social recognition, all of which contribute to the development of their business networks.

What is required is the availability of human resources capable of not only complying with sharia requirements, but also mastering sharia-compliant business development instruments. (Irwan & Salahuddin, 2020). Rapid economic transformation necessitates flexible and adaptable resources. This is the future challenge for Islamic microfinance institutions. To address the links between Islam and development, communication, transparency, and intense social adaptation between Islamic microfinance organizations, the government, and education are essential.

## **CONCLUSION**

People's economy or economic democracy that was initiated by Bung Hatta, is the ideal of Indonesia's economic development, with cooperatives as the motor. This thought pattern for economic development has been explicitly stated in the 1945 Constitution, and Indonesia's economic development that deviates from Article 33 of the 1945 Constitution is unconstitutional.

The concept of populist economic thought as outlined by Bung Hatta does not contradict the values, doctrines, and concepts of Islam in economics. The presence of the sharia economy with the current set of financial, economic, and business institutions cannot be separated from the framework for developing a people's economy, which is the ideal goal of development in Indonesia. On the other hand, the presence of Islamic financial institutions supports and strengthens the national development process, especially in the real sector, which is the foundation of the small people's economic activities. The welfare expected by populist and Islamic economics is common prosperity without neglecting individual achievements in society.

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