

The Strategic Role of Islamic Finance in Achievement of SDGs Targets

Sugiharti

*An-nawawi Purworejo Islamic Religious Institute
Hartisugi63@gmail.com*

M. Nailul

*An-nawawi Purworejo Islamic Religious Institute
Alulsirajuddin45@gmail.com*

Chusnul Mukaromah

*An-nawawi Purworejo Islamic Religious Institute
Mukaromahchusnul2@gmail.com*

Almar To Sholihah Laila

*An-nawawi Purworejo Islamic Religious Institute
Almaratu2819@gmail.com*

Abstract:

The SDGs are a set of goals set by the United Nations (UN) to achieve a better, more sustainable life for everyone on the planet. The SDGs have 17 interrelated and mutually supportive goals to address the global challenges we face. The most common financial system in most countries is still based on conventional economic principles based on the principles of interest, risk and profit, which operate within a framework of financial institutions, markets, instruments and regulations designed to facilitate economic activity. As an alternative to the conventional financial system, the market is witnessing the growth of a financial system based on Islamic Sharia law. Islamic finance is a fast-growing sector of the global financial system, characterised by its adherence to Shariah principles, which emphasise fairness, equity, inclusiveness and public welfare. This ethical foundation not only makes Islamic finance an attractive alternative to conventional finance, but also positions it as an important contributor to sustainable development. Review methodology, which is a systematic and structured approach to evaluate, analyse and synthesise literature relevant to the research topic. The results show that Islamic finance principles inherently support several SDGs, including those that focus on poverty alleviation, economic growth, and reducing inequality.

Keywords: *Financial Instrument, Islamic Finance, SDG's, Sustainable*

A. INTRODUCTION

The philosophy of Islamic economics offers a value-rich framework, with its roots lying in the principles of Islamic ethics and justice. In today's era of globalization, the opposition to sustainable development is becoming increasingly urgent, and the international community recognizes the need to take collective action. In this case, the Sustainable Development Goals (SDGs) have become the main guide for the international community in designing and implementing development policies. The SDGs cover a wide range of dimensions, including the economy, poverty alleviation, environmental conservation, food security and social justice. Islamic economics emerged as a unique and useful paradigm in responding to the call for sustainable development. (Damanuri and Rosyidah 2024) The urgency of implementing the Sustainable Development Goals (SDGs) has increased in recent years. These goals are also embodied in the Indonesia Vision 2045 and the Indonesian Sharia Economic Master Plan for 2019–2024. However, reality says that Indonesia is still far behind in pursuing the SDGs. Of the seventeen existing SDGs points, Indonesia has not achieved any of them, placing it 75th out of 166 other countries in the context of achieving the SDGs. Furthermore, to achieve the targets of the SDGs, developing countries need a fund patch of 4 trillion dollars. Meanwhile, especially Indonesia, this country needs funds of 4.7 trillion dollars to be able to achieve the SDGs. Various development sectors require financing aspects to be able to achieve the desired targets, such as financial stability, infrastructure development, financial inclusion and social impact, and sustainable financing.

The most common financial system in most countries (let's call it a 'conventional financial system') is based on the principles of interest, risk, and profit, operating within the framework of financial institutions, markets, instruments, and regulations designed to facilitate economic activities. Its main features include: Interest is charged on loan funds and is the main way banks and financial institutions earn profits. Financial transactions are carried out with an understanding of risks and potential benefits. Higher risks usually demand higher profit potential. Financial institutions include commercial banks, investment banks, insurance companies, and other financial entities that operate on the purpose of maximizing profits.

Meanwhile, the financial market includes the stock market, bond market, money market, and derivatives market where various financial instruments are traded. The financial system is governed by a series of laws and regulatory bodies that aim to ensure market stability, protect consumers, and maintain fair practices. These instruments include equities, bonds, derivatives, loans, and other financial products.

As an alternative to the conventional financial system, namely Islamic finance which is a financial management system that uses the principles and basis of Islamic law as its guidelines. The Islamic financial system is one of the systems used using the Islamic principle method of the basis of sharia as a reference, also using the basis of Islamic law as a guideline.

The SDGs have 17 goals, including, zero poverty, no hunger, healthy and prosperous living, quality education, gender equality, clean water and decent sanitation, clean and affordable energy, decent jobs and economic growth, industry, innovation and infrastructure, reducing inequalities, sustainable cities and communities, responsible consumption and production, handling climate change, marine ecosystems, terrestrial ecosystems, peace, resilient justice and institutions, and partnerships to achieve goals.

The goals of the SDGs can be achieved by involving many institutions, including Islamic financial institutions. This is because the achievement of the SDGs is in line with the goals achieved in the concept of Islamic economics. There is similarity in goals and is in line with what both aim to achieve. The United Nations Development Program (UNDP) Indonesia held a Roundtable Discussion with the theme: "Leveraging Innovative Financing for Development: Islamic Banking & Finance for SDGs" inviting Tazkia to share his experience in the implementation of Sharia economics and finance in Indonesia on September 25, 2018. Murniati Mukhlisin, Chairperson of STEI Tazkia, was present to convey how Maqashid Syariah has the same goals as the Sustainable Development Goals (SDGs) set by UNDP. Murniati also explained the great potential of Islamic finance in the world. "Various countries in Europe such as France, Germany, Luxembourg, the UK, especially Muslim countries such as Iran, Malaysia, UAE, Saudi Arabia and Indonesia have great attention to the development of Islamic finance as seen from the growth of assets", "With the support of UNDP, regulators, Islamic banking, FinTech, the world of education, and social institutions, it is hoped that the noble goals of the Islamic economy which are also in line with the SDGs can be achieved as best as possible", Murniati emphasized. (<http://mysharing.co.id/>)

Minister of Finance Sri Mulyani Indrawati opened The 2nd Annual Islamic Finance Conference which was held on August 23-24, 2017 at the Royal Ambarrukmo Hotel, Yogyakarta. The theme of this conference was "The Role of Islamic Finance in Eradicating Poverty and Income Inequality". At the event, the Minister of Finance explained that currently the world has a new goal, which is to create sustainable development (Sustainable Development Goals (SDG)). In this case, the role of Islamic finance is very important, in accordance with the goals of Islamic countries to eradicate poverty and income equality. "The values in Islam are in line with the goal of achieving the SDGs, but innovative and creative thinking is needed to develop Islamic financial instruments. Furthermore, the

Minister of Finance said that in Islam there are two financial instruments that can be used to support the achievement of the SDGs, namely zakat and waqf. "Currently, what is more widely known by the public is zakat fitrah, but for mal zakat or property zakat, there are not too many people who pay. As with taxes, there are still obstacles to collecting zakat fitrah," For this reason, the Minister of Finance advised that the National Zakat Agency or other zakat management institutions can further socialize the definition of 'mal' and implement transparent zakat management. In addition, there are community groups that have advantages and endowment property in the form of land or buildings to be used as mosques, schools, and cemeteries. These buildings can be used more widely and developed to support the goal of achieving sustainable development. (<https://www.kemenkeu.go.id/>)

From the above description, the author is interested in delving into the concept of Islamic economics which has the same direction and goals as the concept of sustainable development Sustainable Development Goals (SDGs). The author will conduct an in-depth research on the role of Islamic finance in contributing to the realization of SDGs.

B. LITERATURE REVIEW

Before conducting the research, the researcher tried to review the literature of previous scientific papers related to the title being studied. The results of previous studies need to be presented as material for comparison with the research conducted by the author. The scientific works relevant to the topics raised by the researcher include:

Usman in his research on the Implementation of Sustainable Development Goals (SDGs) in Indonesia from an Islamic Economic Perspective. Indonesia is committed to the success of the Sustainable Development Goals (SDGs) as part of sustainable economic development efforts which are also part of the global commitment. This paper aims to analyze the extent of the government's success in implementing the SDGs program, with a focus on welfare-related goals. In addition, the author will also explore the relevance of the implementation of the SDGs in Indonesia from the perspective of Islamic economics. The research method used is Systematic Literature Review, which is a systematic and structured approach to assessing, analyzing, and synthesizing literature relevant to the research topic. The results of the study show that the regulatory aspects of the SDGs in Indonesia have shown significant progress and relevance to Islamic economic principles. However, in practice, there are various shortcomings and inconsistencies between welfare issues and SDGs, especially from an Islamic economic perspective. This has contributed to the increase in social inequality in Indonesia in the last ten years. These findings show the need for significant

improvements in the implementation of SDGs programs to achieve more equitable and equitable welfare. (Usman et al. 2024)

Kurnia and Widiarti in their research; The Role of Islamic Social Finance and the Indonesian SDGs Village Development Center in the Achievement of the SDGs for Poverty Alleviation and Food Security: A Case Study of Sukorejo Village, Jember Regency. This research aims to determine the role of Islamic social finance which includes zakat, infaq, alms, and waqf, as well as community empowerment programs carried out by the Indonesian Prosperous Village Development Center (PPKSI) in achieving the SDGs goals, namely poverty alleviation and food security in Sukorejo Village, Bangsalsari District, Jember Regency, East Java. This research was conducted through observation, documentation, and interviews with PPKSI leaders and beneficiaries. The findings show that zakat, infaq, and alms distributed in the form of business capital assistance, cheap markets, scholarships, home renovations, and community empowerment programs such as entrepreneurship training and assistance, can help achieve the SDGs goals, namely poverty alleviation and food security. On the other hand, waqf practices can indirectly support the SDGs goals in poverty alleviation and food security because waqf assets are focused on the education and worship sectors. For this reason, strong synergy is needed among all parties to ensure that Islamic social finance management and community empowerment programs contribute positively to the goals of the SDGs, especially in poverty alleviation and food security. (Stuart and Stuart 2024)

Yudanto and colleagues in his research; The Role of Sharia Economics in Supporting the Realization of the Sustainable Development Goals (SDGs) in Indonesia. Sharia economics is an economic system based on sharia principles or Islamic law. The goal is to achieve the welfare of the community in a fair and ethical way, in accordance with the teachings of Islam. The Islamic economy has a major and strategic role in supporting the achievement of the SDGs in Indonesia. With proper development and implementation, the sharia economy can contribute significantly in creating a more just, sustainable, and prosperous future for all Indonesians. This study aims to analyze the role of sharia economics in supporting the SDGs in Indonesia. This study uses a qualitative method with a literature approach. Data is collected through a series of activities related to library data collection methods, reading and recording, and processing research materials. The results of the study show that the sharia economy has a major role in supporting the achievement of the SDGs in Indonesia. (Yudanto et al. 2024)

C. RESEARCH METHODOLOGY

This study uses the Systematic Literature Review method, which is a systematic and structured approach to assessing, analyzing, and synthesizing literature relevant to the research topic. This research discusses the principles of Islamic

finance, its alignment with the Sustainable Development Goals (SDGs), and its potential to encourage the achievement of SDGs targets. These Islamic Finance Principles support various SDGs, including those that focus on poverty alleviation, economic growth, and gap reduction.

D. RESULTS AND DISCUSSION

Islam is a perfect religion that regulates all aspects of human life, both those that are mahdah worship, which is the relationship between humans and the creator of Allah swt, and those that are muamalah worship, which is the relationship that regulates the relationship between humans and humans. One of the aspects regulated in Islam is about the economy. In the economic field, Islamic finance has an important role for economic growth in Indonesia and even the world. The role of Islamic finance is often understood as an ethically and socially responsive financial transaction (Yasni, 2007). In simple terms, we can understand Islamic finance as a social science that studies human economic problems based on Islamic values. Meanwhile, according to Umar Chapra (2001), Islamic finance is a science that contributes to the achievement of human welfare through the allocation and distribution of limited resources in corridors that refer to Islamic teachings that do not guarantee individual freedom or sustainable macroeconomic behavior without environmental imbalances.

Islamic finance has a very wide scope, not only in poverty alleviation but also in improving health, quality of education, gender equality, eradicating climate change and infrastructure development. According to Finance Minister Sri Mulyani Indrawati, over the past decade, Islamic finance has become one of the fastest-growing sectors in the global financial sector; In fact, the performance of Islamic finance is better than that of the conventional financial market. The Global Islamic Economics Report (2020) estimates that the value of Islamic financial assets increased by 13.9% in 2019, from \$2.52 trillion to \$2.88 trillion. Due to COVID-19, the value of Islamic financial assets is not expected to increase in 2020, but is expected to recover and grow at a five-year compound annual growth rate (CAGR) of 5% starting in 2019. reached \$3.69 trillion in 2019. 2024. Based on a report by the Head of the Tax Policy Agency (BKF), Febrio Kacaribu, the growth started from the banking sector with an increase in assets of 15.6% (compared to the same period last year) in May 2019. 2021 reached IDR 598.2 trillion, and recorded investor growth of 9.3% in May 2021, the first three months of 2021 in the Islamic capital market.

Islamic finance is also seen as a tool that plays an important role in supporting economic recovery and poverty alleviation programs by strengthening the economy and community business activities. It is true that Islamic finance provides a method, a framework for asset and transaction management based on the principles of fairness and sincerity. All of this is reflected in the risk equity

financing mechanism in sharia financing as well as the social presence of sharia financing such as zakat, waqf, and infaq

Currently, developing countries are faced with the demands of achieving the Sustainable Development Goals (SDGs) in the 2016-2030 period. The agreement was ratified at the meeting on September 25-27, 2015 attended by representatives from 193 countries, and then agreed on August 2, 2015 in a meeting attended by 193 countries entitled "Transforming Our World: The 2030 Agenda for Sustainable Development" (Arif Sufianto, 2019)

In achieving the SDGs goals, Islamic finance must also be able to follow the trend of globalization. There are several factors driving Islamic finance in following the trend of globalization, including increasing global awareness of finance, the growth of the Muslim middle class, the integration of OIC (Organization of Islamic States) countries, and financial technology innovation. The Financial Services Authority (OJK) said that sharia financing can be one of the global solutions to achieve the Sustainable Development Goals (SDGs) set by the United Nations (UN). "The distinctive principles of Islamic finance that encourage income equity and target social-environmental activities make the development of the Islamic financial system very suitable to achieve the goals of the SDGs", Islamic finance not only achieves aspects of poverty alleviation It also includes improving health, providing quality education, gender equality, infrastructure development, economic growth, predicting climate change and reducing income inequality. " OJK as a competent authority for the financial services sector in Indonesia continues to encourage the development of the Islamic financial sector, starting from the Islamic banking sector, Islamic market IKNB, and Islamic capital market."

Bank Indonesia and the Islamic Development Bank (IDB) emphasized the role of Islamic economics and finance in achieving sustainable growth. The topic of this question came up at the International Forum of Islamic Finance (Global Forum Islamic Finance) held on May 16, 2016 in Jakarta. This year's theme is "The role of Islamic finance in achieving the Sustainable Development Goals" with the hope that the Islamic finance sector can contribute to the Sustainable Development Goals (SDGs) focusing on inclusive and sustainable economic growth, reducing unemployment and reducing poverty levels. The SDGs are an initiative of the United Nations (UN) that began in 2012. The UN recommends that all countries adopt the SDGs which include 17 (seventeen) achievements, which include hunger eradication, good health, and social welfare. education. . quality, good employment, and economic growth. Regarding the SDGs, the Governor of Bank Indonesia expressed his view that the SDGs are in line with the spirit of Islamic finance based on Islamic ethical values rooted in sharia goals (maqasid al-Shariah). Therefore, this forum is important to discuss the development of Islamic finance to contribute to the achievement of the SDGs. Bank Indonesia's

views on the challenges faced by Indonesia in achieving the SDGs and BI's role in supporting the social sector, especially zakat and waqf to support sustainable and inclusive growth.

The sharia economy in Indonesia continues to experience a very good growth rate, public interest in using sharia economic products is increasing in all circles. Now is the time for Islamic economics to play a bigger role in contributing to the country. One of them is to support and participate in achieving the Sustainable Development Goals (SDGs). Although the principles and operations of the sharia economic system are different from the principles and operations of the conventional economic system, the main goal of the sharia economy is to achieve *falah*, including creating economic prosperity for the entire community. This is in line with the goals of the SDGs which include improving welfare, poverty alleviation, and creating equality. Through Islamic economic organizations, the achievement of the SDGs can be achieved. Islamic banks, as intermediaries that collect and distribute capital, can contribute to the SDGs. With the effectiveness of financing owned by Islamic banks, it can help customers obtain business capital through profit-sharing contracts, especially for small, micro and medium enterprises. In addition, through the Sharia Non-Banking Financial Sector (SYARIAH IKNB), it can contribute to the SDGs. Through various SYARIAH IKNB products, the public can easily access sharia-based financing, the public can obtain additional capital and access to investment. The role of community organizations in the collection and social of zakat, infaq, shadaqah, waqf and other social tools and strongly supports the achievement of the SDGs. Through community organizations, equitable distribution of wealth can be achieved, as part of efforts to alleviate poverty, as well as income equity. An expression of concern for others. Islamic economics and all of it, especially Islamic economic financial institutions, have something in common with the SDGs to ensure the welfare of all Indonesian people.

The Islamic financial system operates on principles derived from Islamic law, which prohibit certain activities such as charging or paying interest (*riba*), involving excessive uncertainty (*gharar*) in transactions, and investing in prohibited activities (*haram*). Its key features include:

The collection or giving of interest (*riba*) is strictly prohibited. Instead it is used for revenue sharing, rent, and trade;

Financial transactions emphasize risk sharing between parties. Profits and losses are distributed according to pre-agreed ratios;

The transaction must be backed by a tangible asset or service. Speculative and gambling activities are prohibited;

All financial activities and instruments must comply with Sharia principles. The Shariah Council supervises and ensures compliance.

The instruments used are: (Ubaidillah, Yuliana, and Supriyanto 2024)

Murabaha (Sale of agreed profit margins in cash or deferred price payment): Cost-plus financing where banks buy assets and sell them to customers at a profit; Musawamah: A general type of sale in which the price of a traded commodity is set between the seller and the buyer without reference to the price paid or the fees incurred by the seller; Greetings (Prepayment – Sales with Delayed Delivery): A type of sale in which the seller promises to provide a certain item to the buyer in the future in exchange for a price that has been paid in full in advance at the time the sales contract is made; Ijarah: A lease agreement in which a bank buys and leases an asset; Mudarabah: A revenue-for-profit partnership where one party provides capital and the other party provides membership; Musyarakah: A joint venture in which all partners contribute capital and share profits and losses; Sukuk: Islamic bonds that represent ownership of a tangible asset, project, or business venture; Istisna: An extraordinary way of selling, at an agreed price, in which the buyer orders to produce, assemble or build (or cause to be done) something to be delivered in the future.

It is also important to mention here that there are other Islamic religious obligations such as zakat (obligatory alms), voluntary alms, and waqf/awqaf (charitable donations) that can contribute to social finance. It is not an Islamic financial instrument in essence, but it is included here to state that it also contributes to the achievement of the SDGs.

Islamic finance principles are closely aligned in supporting several SDGs, including those that focus on poverty alleviation, economic growth, and gap reduction.

Zero Poverty (SDG 1):

Zakat and Alms: Islamic finance requires charitable giving (Zakat and Alms), which can be directed to poverty alleviation. Zakat funds are estimated to be significant, with the potential to reduce poverty substantially if managed and distributed effectively.

Microfinance: Islamic microfinance provides interest-free loans (Qard Hassan) to entrepreneurs and small businesses, to encourage economic independence and reduce poverty.

Decent Work and Economic Growth (SDG 8):

Musharakah and Mudaraba: Equity-based financing models such as Musharakah (joint ventures) and Mudaraba (profit-sharing) encourage entrepreneurship and economic growth by providing capital without interest burdens.

Sukuk (Islamic Bonds): Sukuk can finance large-scale infrastructure projects, create jobs, and stimulate economic growth. Unlike conventional bonds, sukuk is backed by assets, which guarantee real economic activity. (Pardi, Kurniawan, and Suharyono 2024)

Reducing Inequality (SDG 10):

Social Justice: Islamic finance prioritizes the distribution of wealth and social justice. Instruments such as Zakat and Waqf (endowment funds) are used to support social programs aimed at reducing inequality.

Ethical Investments: The prohibition of speculative and detrimental investments ensures that capital is directed towards socially responsible and inclusive projects.

Responsible Consumption and Production (SDG 12):

Ethical Screening: Islamic finance mandates investment in ethical and socially responsible sectors, promoting sustainable business practices and responsible consumption.

Green Sukuk: Green Sukuk is a Sharia-compliant bond specifically aimed at funding sustainable projects that are environmentally friendly, and support sustainable production practices.

Thus we can know that Islamic Finance, which is rooted in ethical and Sharia principles, is closely aligned with the SDGs and offers a promising approach to advancing economic growth, reducing poverty, and promoting social justice.

E. CONCLUSION

Indonesia is an active country in implementing the Sustainable Development Goals (SDGs) and has shown a strong commitment through various regulations that support the implementation of the SDGs, especially in improving the welfare of local communities. These regulations implicitly and explicitly serve as the basis for achieving the agreed SDG targets.

Islamic finance plays a role in achieving the SDGs goals with its own instruments. However, in the aspect of improving people's welfare, there are still many things that need to be improved so that the goals of the SDGs are truly achieved according to the target. This effort must involve strengthening cooperation between the government, the private sector, and the community, as well as government policies. Thus, Indonesia can achieve more meaningful progress in promoting prosperity and realizing the SDGs through a more targeted strategy.

BIBLIOGRAPHY

- Damanuri, Aji, and Eva Rosyidah. 2024. "Contextualization of Islamic Economic Philosophy in the SDGs." *Syntax Idea* 6 (6): 2517–34.
- Kurnia, Ariel Izza, and Dwi Retno Widiyanti. 2024. "The Role of Islamic Social Finance and the Indonesian SDG Village Development Center in the Achievement of the SDGs for Poverty Alleviation and Food Security: A Case Study of Sukorejo Village, Jember Regency." *Islamic Economics and Finance in Focus* 3 (3): 640–61.
- Pardi, Abisar, Yuda Septian Kurniawan, and Suharyono Suharyono. 2024. "Sukuk Investment as an Islamic Financial Instrument for Development." *El-Kahfi| Journal of Islamic Economics* 5 (01): 35–41.

- Ubaidillah, M Alfian, Indah Yuliana, and Achmad Sani Supriyanto. 2024. "The Influence of Islamic Financial Instruments on Economic Growth." *Al-Kharaj: Journal of Sharia Economics, Finance & Business* 6 (3).
- Usman, Usman, Wartoyo Wartoyo, Nur Haida, and Nining Wahyuningsih. 2024. "Implementation of the Sustainable Development Goals (SDGS) in Indonesia from an Islamic Economic Perspective." *Al-Masharif: Journal of Economics and Islam* 12 (1): 108–26.
- Yudanto, Dandi Setyo, Wahyu Tri Handayani, Ismi Julia Puro, Mauliddina Widiyaningrum, and VinkaWendi Hestinasari. 2024. "The Role of Sharia Economics in Supporting the Realization of the Sustainable Development Goals (SDGs) in Indonesia." *Economics, Business Finance and Entrepreneurship*, 32–36.