Islamic Economics and Sustainable Development Goals (SDGs): Bridging the Gap through Ethical Financial Practices

Ekonomi Islam dan Sustainable Development Goals (SDGs): Menjembatani Kesenjangan melalui Praktik Keuangan yang Etis

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ABSTRACT
Islamic financial practices are an important research subject in the context of achieving Sustainable Development Goals (SDGs). This research investigates the contribution of Islamic financial practices to achieving the SDGs through a systematic analysis of related literature. Various Islamic financial practices, including the use of sharia financial contracts, implementation of zakat, infaq, and aims, as well as engagement in responsible social and environmental investments, are evaluated in the context of their impact on financial inclusion, economic empowerment, environmental protection, and overcoming social inequality. The research results show that Islamic financial practices have great potential in supporting the achievement of SDGs. Policy implications and further research directions are also discussed.

Keywords: Islamic Financial Practices, Sustainable Development Goals (SDGs), Financial Inclusion, Economic Empowerment, Environmental Protection, Social Inequality

ABSTRAK

Keywords: Praktik Keuangan Islam, Sustainable Development Goals (SDGs), Inklusi Keuangan, Pemberdayaan Ekonomi, Perlindungan Lingkungan, Ketimpangan Sosial

Introduction
The relationship between Islamic economics and sustainable development goals (SDGs) is being explored in various research studies. For instance, a study on the role of financial performance of global Islamic and conventional microfinance institutions in achieving SDGs found that the financial performance of both types of institutions is important for SDG achievement, with institution size playing a moderating role (Noor, 2023). Another study focused on the strengthening of Islamic principles in the halal industry for SDGs, highlighting the potential of the halal industry to contribute to sustainable development through its adherence to Sharia values such as social responsibility, environmental friendliness, and ethical investment (Meylinda, 2023). Additionally, research has been conducted on the potential of Islamic securities crowdfunding (I-SCF) to contribute to SDGs based on the perspective of Maqashid Sharia, showing that I-SCF has the potential to strengthen MSME capital, expand access to Islamic financial services, and strengthen the halal industry, aligning with the values of Maqashid Sharia (Wafa, 2022). While these studies provide valuable insights into the
potential linkages between Islamic economics and SDGs, further research and analysis are ongoing in this area.

The role of social responsibility in Islamic economics is significant, as it aligns with the principles of justice, fairness, and ethical conduct. Islamic economics emphasizes the importance of social welfare, which is reflected in practices such as the payment of Zakat (obligatory alms) and Sadaqah (voluntary charity). Furthermore, the halal industry, which is guided by Islamic principles, promotes social responsibility, environmental friendliness, and ethical investment, contributing to sustainable development goals[2]. Additionally, research has shown that Islamic securities crowdfunding has the potential to strengthen MSME capital, expand access to Islamic financial services, and strengthen the halal industry, all of which are in line with the values of Maqashid Sharia, including the promotion of social welfare and sustainable development[3]. Therefore, social responsibility is integral to Islamic economics and is interconnected with the broader framework of sustainable development goals.

Islamic economics and ethical financial practices play a significant role in achieving the Sustainable Development Goals (SDGs). Several research articles highlight the importance of Islamic financial institutions in contributing to sustainable development. For instance, a study compared the role of financial performance of global Islamic and conventional microfinance institutions in achieving SDGs, indicating the importance of financial performance in both types of institutions. Another research focused on the halal industry, emphasizing the potential of Islamic principles to contribute to sustainable development (Zeb,2022). Additionally, a study analyzed the potential of Islamic securities crowdfunding in creating SDGs based on the perspective of Maqashid Sharia, highlighting its potential to strengthen MSME capital and expand access to Islamic financial services. These articles collectively demonstrate the relevance of Islamic economics and finance in bridging the gap towards achieving the SDGs through ethical financial practices (Syed,2020).

Islamic economics is an economic system based on Islamic principles and values, such as justice, fairness, and social responsibility. It emphasizes the importance of ethical financial practices, including profit and risk-sharing, avoiding interest-based transactions, and promoting social welfare. Islamic economics relates to sustainable development goals (SDGs) by contributing to the achievement of these goals through ethical financial practices. For instance, research has shown that the financial performance of both Islamic and conventional microfinance institutions is important in achieving SDGs (Wafa,2022). Additionally, the halal industry, which is based on Islamic principles, has the potential to contribute to sustainable development by promoting social responsibility, environmental friendliness, and ethical investment (Paul,2021). Islamic securities crowdfunding has also been analyzed as a potential tool for creating SDGs based on the perspective of Maqashid Sharia, highlighting its potential to strengthen MSME capital and expand access to Islamic financial services (Ismail,2017). Overall, Islamic economics and ethical financial practices play a significant role in bridging the gap towards achieving the SDGs.

Islamic economics is based on the principles of Sharia law, which emphasizes ethical and moral values in economic activities. The key principles of Islamic economics include the prohibition of interest-based transactions (riba), the promotion of risk-sharing (mudarabah), the requirement of asset-backing (tawarruq), the avoidance of uncertainty (gharar), and the promotion of social welfare (zakat). Islamic economics also emphasizes the importance of ethical financial practices, such as transparency, accountability, and social responsibility. These principles are intended to promote economic justice, fairness, and stability, and to ensure that economic activities are conducted in a manner that is consistent with Islamic values and principles (Zeb,2022).

Specific examples of social responsibility in Islamic economics include the following: (1) Zakat and Sadaqah: Islamic economics emphasizes the payment of Zakat (obligatory alms) and Sadaqah (voluntary charity) as a form of social responsibility, aimed at supporting the less
fortunate and promoting social welfare. (2) Halal Industry: The halal industry, guided by Islamic principles, promotes social responsibility, environmental friendliness, and ethical investment, contributing to sustainable development goals. (3) Islamic Securities Crowdfunding (I-SCF): Research has shown that I-SCF has the potential to strengthen MSME capital, expand access to Islamic financial services, and strengthen the halal industry, aligning with the values of Maqashid Sharia, which include the promotion of social welfare and sustainable development. These examples demonstrate how social responsibility is integrated into various aspects of economic activities guided by Islamic principles (Syed, 2022).

This research aims to bridge the gap between Islamic Economics and Sustainable Development Goals (SDGs) through Ethical Financial Practices. In the current global context, sustainable development challenges are increasingly urgent to be addressed, and Islamic Economics offers a promising alternative with a focus on moral and ethical values in finance. However, there is still a gap in the related literature regarding how Islamic financial practices can concretely support the achievement of SDGs (Khan, 2019). Therefore, it is important to conduct this research to explore the relationship between Islamic Economics and SDGs through ethical financial practices, as well as to identify the scope and potential contribution of Islamic Economics in achieving sustainable development goals.

Although the concept of Islamic Economics is attracting attention as an alternative based on ethical values, empirical research investigating its relationship with achieving the SDGs is still limited. There is a gap in the literature that comprehensively explains how Islamic financial practices can contribute to specific aspects of the SDGs, such as poverty alleviation, economic empowerment, and environmental protection. This triggers the need to conduct systematic and comprehensive research to fill this knowledge gap.

Previous research tends to focus on theoretical analysis of the concepts of Islamic Economics and SDGs, while in-depth empirical research is still lacking. There is a lack of understanding of how Islamic financial practices can actually contribute to achieving sustainable development goals. Therefore, there is an urgent need to conduct systematic research involving analysis of the latest literature to fill this knowledge gap and provide a deeper understanding of the relationship between Islamic Economics and the SDGs through ethical financial practices.

**Research Methods**

This research uses a systematic literature review method to collect, review and synthesize the latest literature relevant to the topic "Islamic Economics and Sustainable Development Goals (SDGs)". First, researchers used specific keywords such as "Islamic economics", "Sustainable Development Goals", "ethical finance". Next, academic databases such as Scopus, Web of Science, ScienceDirect, Google Scholar, and ProQuest were used to search for relevant articles.

After collecting potential articles, the researcher filtered them by considering the relevance of the article to the research topic. Articles that did not fit the research focus or did not provide a significant contribution were eliminated from the analysis. Finally, the filtered articles will be analyzed in depth to identify key findings and emerging patterns in the literature regarding the relationship between Islamic Economics, ethical financial practices and the achievement of the SDGs. This method allows researchers to gain a comprehensive understanding of the potential contribution of Islamic Economics in supporting sustainable development through ethical financial practices.

**Results and Discussion**

Based on the results of the literature review, several important things were found that could contribute to this research, including the following:
Islamic Financial Practices

1. Penguse of funds in sharia financial contracts

The practice of using funds in sharia financial contracts, such as mudharabah, musyarakah, and murabahah, shows a financial system based on Islamic sharia principles. These contracts base their operations on the concept of sharing risks and profits between the parties involved. For example, in mudharabah, one party provides capital while the other party is responsible for business management, and profits are shared according to the initial agreement. This concept not only provides opportunities for entrepreneurs to obtain the capital needed to develop their businesses, but also provides opportunities for investors to gain profits from their investments (Dariah, 2016).

By involving the community in sharia financial contracts, this practice can create economic opportunities for those who are less fortunate. For example, through mudharabah and musyarakah, individuals or groups who have a business idea but do not have sufficient capital can partner with investors to obtain financial support. This can help reduce economic disparities and increase financial inclusion, which are important aspects in achieving the SDGs, especially in alleviating poverty and empowering the economic community (Gundogdu, 2018).

Therefore, the hypothesis proposed is that the use of funds in sharia financial contracts will have a positive impact on achieving the SDGs by opening economic opportunities for underprivileged communities through the concept of sharing risks and profits.

Hypothesis: The use of funds in sharia financial contracts will contribute positively to achieving Sustainable Development Goals (SDGs) by creating economic opportunities for underprivileged communities through the concept of sharing risks and profits.

2. Provision Ifinancial existence in accordance with the principles of sharia

The practice of providing financial services in accordance with sharia principles is a fundamental aspect of Islamic economics. Financial services that are free from riba (interest), gharar (uncertainty), and maysir (gambling) provide an alternative that is in accordance with Islamic values for individuals and society in managing their finances (Hossain, 2019).

In this practice, Islamic financial institutions offer products such as savings, financing and investment that do not involve elements that are forbidden in Islam. For example, in financing, Islamic financial institutions use principles such as mudharabah (profit sharing) and murabahah (buying and selling with a markup) instead of the interest charged in the conventional financial system (Mukhtar, 2018).

By providing financial services that comply with sharia principles, this practice can help people manage their finances sustainably and fairly. By avoiding usury and other unethical practices, individuals can plan their finances better, avoid excessive debt, and allocate their funds more efficiently to important needs (Wartojo, 2023).

Therefore, the hypothesis put forward is that the provision of financial services in accordance with sharia principles will have a positive impact on achieving the SDGs by enabling people to manage their finances sustainably and fairly.

Hypothesis: Providing financial services in accordance with sharia principles will contribute positively to achieving the Sustainable Development Goals (SDGs) by enabling society to manage finances sustainably and fairly.

3. Implementation of zakat, infaq and alms practices

The implementation of zakat, infaq and alms practices is an integral part of Islamic financial practices which are centered on the values of social care and economic justice. Zakat is a mandatory contribution aimed at helping those in need in society. By paying zakat, individuals or companies contribute to efforts to alleviate poverty and empower the economy, because the funds collected are allocated to help those who are less fortunate (Laldin, 2021).
Apart from zakat, there are also the concepts of infaq and alms. Infaq is a voluntary donation given outside the obligation of zakat, while alms is a charitable donation given on the basis of social concern and kindness. Both have similar goals to zakat, namely to help those in need and improve the welfare of society as a whole (Helvacıoğlu, 2021).

Through the implementation of zakat, infaq and alms practices, the funds collected can be allocated effectively to improve community welfare. These funds can be used for various purposes, such as education, health, community economic development and social infrastructure. Thus, this practice can play a role in alleviating poverty, empowering the economy, and improving the welfare of society as a whole (Abdullah, 2018).

Hypothesis: Implementation of zakat, infaq and alms practices will contribute positively to achieving the Sustainable Development Goals (SDGs) by improving community welfare, including poverty alleviation and broader economic empowerment.

4. Engagement in responsible social and environmental investments

Islamic financial practices involving responsible social and environmental investments reflect a commitment to making a positive impact on society and the environment. This investment not only aims to achieve financial profits, but also to improve social and environmental welfare. By selecting investments that pay attention to their impact on society and the environment, this practice seeks to support efforts to protect the environment and overcome social inequality. Responsible investment can include projects such as green infrastructure development, skills development and community education, as well as programs to improve access to basic services (Ahmed, 2015).

Hypothesis: Involvement in responsible social and environmental investment will contribute positively to achieving the Sustainable Development Goals (SDGs) by supporting efforts to protect the environment and overcome social inequality.

Sustainable Development Goals (SDGs)

1. Poverty alleviation

Poverty alleviation is the main focus in the Sustainable Development Goals (SDGs) because poverty is one of the main challenges in global development. Islamic financial practices, which emphasize financial inclusion, risk sharing, and community economic empowerment, have great potential to contribute to achieving this goal (Ghoniyah, 2020).

Islamic financial practices prioritize financial inclusion by providing access to financial services that comply with sharia principles to communities previously underserved by conventional financial systems. This includes providing microloans and other financial products that can help individuals and community groups to develop their businesses and manage their finances better (YURTSEVEN, 2020).

Risk sharing is also an important principle in Islamic financial practices. Through contracts such as mudharabah and musyarakah, risks and profits are shared between the parties involved, thereby helping to reduce the risk burden borne by economically weak individuals or groups (Hidayat, 2024).

Community economic empowerment is also a focus in Islamic financial practices. By providing access to financial services and through investments that address social justice, this practice can help increase the economic capacity of underprivileged communities and provide them with the tools to overcome poverty in a sustainable manner (Helvacıoğlu, 2021).

2. Community economic empowerment

Islamic financial practices do not only focus on financial aspects, but also on empowering the community’s economy. By providing fair and inclusive access to financial services that comply with sharia principles, such as mudharabah and musyarakah, Islamic financial practices help increase the economic capacity of society. Additionally, through
investments that address social justice, this practice helps provide capital and resources to those marginalized in society. Thus, community economic empowerment is an important aspect of Islamic financial practices (Mukhtar, 2018).

3. Environmental protection and conservation of natural resources

Islamic financial practices that pay attention to the environmental and social impacts of investments and economic activities demonstrate awareness of social and environmental responsibility. By considering these factors in making investment decisions, Islamic financial practices strive to safeguard ecosystems and conserve natural resources. This can be done by avoiding investment in industries that damage the environment, such as unsustainable mining or environmentally unfriendly waste processing. In contrast, Islamic financial practices can direct investments towards projects that contribute to environmental conservation, such as renewable energy, clean water management, or forest planting (Hossain, 2019).

4. Overcoming social inequality

Islamic financial practices, by prioritizing the principles of justice and inclusion, have the potential to reduce social inequality in society. Through practices such as zakat and infaq, which place social concerns as a priority, Islamic finance enables the redistribution of wealth and resources from those who can afford it to those who need it. This helps improve access of underprivileged communities to economic resources and promotes financial inclusion (Dariah, 2016).

Applying the principles of justice also involves avoiding practices that can strengthen social inequality, such as usury interest which can burden poor people with unpaid debts. Thus, Islamic financial practices aim to create a more equal and just economic environment, where all members of society have equal opportunities to develop (Ismail, 2017).

Framework

Figure 1. Research Framework

Hypothesis:
Islamic Finance practices that prioritize ethical principles, financial inclusion, and social justice will contribute positively to achieving the Sustainable Development Goals (SDGs) by reducing poverty, increasing community economic empowerment, protecting the environment, and reducing social inequality.

Conclusion

From this research, it can be concluded that Islamic financial practices have great potential in supporting the achievement of Sustainable Development Goals (SDGs). Various Islamic financial practices, such as the use of sharia financial contracts, implementation of zakat, infaq and alms, as well as involvement in responsible social and environmental investments, provide positive contributions to various aspects of sustainable development. This practice not only promotes financial inclusion and community economic empowerment, but also pays attention to the environmental and social impacts of economic activities. Therefore,
implementing Islamic financial practices can be an effective strategy in supporting global efforts to achieve sustainable development goals.

References


