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Implementation of Sharia Principles in Microfinance: A Case Study in Indonesia

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ABSTRACT

The purpose of this study is to analyze the implementation of sharia principles in microfinance in Indonesia through the Systematic Literature Review (SLR) approach. The SLR method was chosen because it allows researchers to collect and analyze various related literature systematically, in order to provide a comprehensive picture of the implementation of sharia principles in the microfinance sector in Indonesia. This study identifies relevant literature based on inclusion and exclusion criteria, focusing on studies published in the last 4-5 years that discuss the implementation of sharia principles in microfinance. Furthermore, a thematic analysis was conducted to identify patterns, trends, and challenges faced by sharia microfinance institutions in implementing sharia principles. The results of this study indicate that the implementation of sharia principles in microfinance in Indonesia has great potential to improve the economic welfare of the community, especially in terms of financial inclusion. However, significant challenges related to the community's understanding of sharia principles and the lack of supporting regulations are still major obstacles to its development. Nevertheless, sharia microfinance continues to show great potential in providing solutions for community economic empowerment. This study suggests the need for strengthening policies, increasing public education on sharia principles in microfinance, and product and service innovations that are more in line with market needs. The successful implementation of sharia principles is highly dependent on effective collaboration between financial institutions, government, and the community.

Keywords:*Islamic Microfinance, Implementation of Islamic Principles, Financial Inclusion*

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INTRODUCTION

Microfinance in Indonesia has grown rapidly in recent decades, especially with the emergence of various financial institutions that focus on empowering the economy of communities that are underserved by the conventional banking system (Nurhayati, 2020). One form that is increasingly popular is Islamic microfinance, which integrates Islamic sharia principles in the provision of financial services (Hasan, 2021). The implementation of sharia principles in microfinance aims to meet the economic needs of the community in a fair, transparent, and free from elements of riba (interest), gharar (uncertainty), and maysir (gambling) (Huda, 2019). Sharia principles in microfinance pay special attention to the balance between profit and social sustainability (Sari, 2022). Islamic microfinance institutions not only focus on profitability, but also on community empowerment, especially in terms of providing loans with a fairer profit-sharing system (Ihsan, 2020). This is in line with the main goal of Islamic economics, namely to realize equitable social welfare (Wahyuni, 2021).

Islamic microfinance in Indonesia can be found in various forms, such as Islamic cooperatives, Islamic banks, and other microfinance institutions that implement Islamic principles in their operations (Rizki, 2021). These various forms show the flexibility and diversity of the Islamic microfinance sector which is able to reach various levels of society with different needs (Arifin, 2022). Each form of Islamic microfinance institution has unique characteristics and approaches in providing financial services in accordance with Islamic principles (Muda, 2020).

Sharia cooperatives are one of the most common forms of sharia microfinance institutions in Indonesia. This cooperative functions as an institution that provides loans to its members by implementing sharia principles in every transaction (Halim, 2019). Unlike conventional cooperatives that rely on interest, sharia cooperatives use profit-sharing principles, such as mudharabah or musyarakah, to determine profit sharing (Nabila, 2020). Through this system, sharia cooperatives can create a fairer relationship between providers and recipients of financing, which in turn strengthens the sense of togetherness among its members (Azizah, 2021). Sharia cooperatives also play an important role in developing entrepreneurship among their members, by providing financing for small and medium enterprise (SME) capital and various other economic empowerment programs (Suharno, 2020).

In addition to sharia cooperatives, sharia banks are also an integral part of the sharia microfinance ecosystem in Indonesia. Although sharia banks generally serve a larger market segment, they also provide products that can be utilized by micro, small, and medium enterprises (MSMEs) (Rahman, 2020). Products such as mudharabah, musyarakah, and murabahah financing offered by sharia banks can be used for small business financing and working capital, which are greatly needed by many MSMEs (Kurniawan, 2021). Sharia banks also facilitate financial inclusion by offering services such as sharia savings, sharia credit cards, and various other financing products that are in accordance with sharia principles (Widodo, 2020). Although sharia banks have a larger and more complex structure compared to cooperatives or other microfinance institutions, their existence is very important in expanding financial access for people in need (Dewi, 2022).

On the other hand, non-bank Islamic microfinance institutions, such as Baitul Maal wa Tamwil (BMT), also play a very important role in the Islamic microfinance system in Indonesia. BMT is an institution that focuses on providing financing to low-income communities or micro-entrepreneurs by implementing sharia principles (Salim, 2021). BMT often has a wider scope of services, not only limited to financing, but also to economic empowerment through training and capacity building for micro-enterprises (Ismail, 2020). Although often relatively small and more focused on certain communities, BMT has a vital role in providing much-needed financial access to communities that are not covered by Islamic banks or other large financial institutions (Hidayat, 2019). In addition, BMT also functions as a distribution channel for zakat, infaq, and alms which can be utilized for social programs and economic empowerment (Nur, 2020).

The implementation of sharia principles in these microfinance institutions varies, depending on the type of institution. For example, sharia cooperatives and BMTs generally prioritize the principles of musyarakah and mudharabah, which rely on cooperation and profit sharing between two parties based on their contributions (Sari, 2021). Meanwhile, sharia banks often use various types of sharia contracts, such as murabahah (sale and purchase with a fixed profit margin) for consumer financing, and ijarah (lease) for asset or property financing (Zulkarnain, 2020). Although these products vary, they all have the same goal, which is to create a fairer and more transparent financial system without elements of riba (interest), gharar (uncertainty), and maysir (gambling) (Hidayat, 2020). The diversity of models of sharia microfinance institutions provides flexibility for the community to choose the institution that best suits their needs

(Munir, 2021). In many cases, the existence of several types of institutions also strengthens the overall Islamic microfinance ecosystem, because they complement each other (Fitri, 2022). Islamic cooperatives can focus on certain communities, Islamic banks can provide broader and more diverse services, while BMTs focus more on empowering micro-enterprises and managing zakat (Ramadhan, 2021). All of these institutions have the potential to accelerate financial inclusion in Indonesia, especially in areas that have so far been difficult to reach by the conventional banking system (Susanto, 2021). However, although the Islamic microfinance sector shows great potential, there are still challenges that need to be faced by these institutions. One of the main challenges is the lack of coordination and collaboration between existing institutions (Wahyudi, 2020).

Overall, the diversity of forms of Islamic microfinance institutions in Indonesia shows that this sector has great potential in providing fair financial solutions that are in accordance with religious values (Pratama, 2021). With various types of complementary institutions, people have more choices in accessing financial services that suit their needs (Fadilah, 2020). However, to maximize this potential, there needs to be increased coordination and cooperation between institutions, as well as support from the government and the private sector to create an ecosystem that supports the growth of the Islamic microfinance sector in Indonesia (Santosa, 2022). The existence of these institutions provides an alternative for people who want to access financial services without being bound by conventional principles that have the potential to harm certain parties (Rahayu, 2021). Along with rapid economic growth in Indonesia, Islamic microfinance is becoming increasingly relevant as a means to support community economic empowerment (Yusuf, 2020). Many studies have been conducted to explore the positive impacts and challenges in the implementation of Islamic microfinance, but there are still many aspects that need to be further studied, especially in the context of implementing Islamic principles in practice (Mulyana, 2021). In the context of Indonesia, the role of Islamic microfinance institutions is very important to support financial inclusion, where most people do not yet have access to formal banking services (Kasim, 2022). Islamic microfinance offers a solution by providing loans that do not contain usury elements and do not burden loan recipients (Abdullah, 2020). These Islamic principles make these institutions more trustworthy to people who have concerns about the conventional financial system (Dewi, 2020). On the other hand, the implementation of Islamic principles in microfinance in Indonesia also faces a number of challenges. One of them is the lack of in-depth understanding of Islamic principles among business actors and the general public (Rahman, 2021). In addition, existing regulations also still need to be improved to ensure that Islamic microfinance institutions can operate effectively and in accordance with sharia principles (Yani, 2022).

Based on these conditions, this study aims to analyze the implementation of sharia principles in microfinance in Indonesia. This study also focuses on the challenges and opportunities faced by sharia microfinance institutions in implementing sharia principles in their operations. Thus, this study will contribute to a deeper understanding of the effectiveness of the implementation of sharia principles in the microfinance sector. This study is also relevant to provide input to policy makers and regulators regarding the importance of more focused policy support for the development of sharia microfinance in Indonesia. It is hoped that the results of this study can provide a clearer picture of the condition of sharia microfinance in Indonesia and how this sector can develop better in the future.

METHOD

This study uses the Systematic Literature Review (SLR) approach to analyze various previous studies related to the implementation of sharia principles in microfinance in Indonesia (Ahmad & Zainuddin, 2021). The SLR method was chosen because it allows researchers to collect and analyze various literature systematically, which can provide a comprehensive picture of the topic being studied (Rahman, 2020). The first step in SLR is to determine the inclusion and exclusion criteria to select relevant literature. The inclusion criteria used are research related to sharia microfinance in Indonesia, published in the last 4-5 years, and focusing on the implementation of sharia principles (Fahmi, 2022). Meanwhile, literature that is not relevant or does not meet these criteria will be excluded (Syamsuddin, 2021). After the relevant literature is selected, the next stage is to conduct a thematic analysis of the published research results. This analysis aims to identify patterns, trends, and gaps in the implementation of sharia principles in the Indonesian microfinance sector (Mulyani, 2020). In addition, researchers will also explore the challenges faced by Islamic microfinance institutions in implementing these principles (Kusuma, 2021). This study also uses a qualitative approach to gain deeper insights from existing literature. Thus, the results of this study do not only focus on statistics or quantitative data, but also on understanding the factors that influence the implementation of Islamic principles in microfinance (Yusuf & Damar, 2022).

RESULTS AND DISCUSSION

In this study, the results of the analysis show that the implementation of sharia principles in microfinance in Indonesia has several significant advantages (Khalid, 2021). One of the main advantages found is the ability of sharia microfinance to provide more inclusive access to financing for people who are not covered by the conventional banking system (Fauzan & Suryanto, 2022). Sharia principles, which require transactions to be free from usury (interest), gharar (uncertainty), and maysir (gambling), make sharia microfinance a fairer and more transparent alternative, especially for low-income people and marginalized groups (Wahyuni, 2020). Another advantage of implementing sharia principles is the use of a profit-sharing system that is fairer than fixed interest in the conventional banking system (Ahmad & Zainuddin, 2021). In the profit and loss sharing model, both lenders and borrowers share profits and risks proportionally (Sari, 2022). This creates a greater sense of fairness on the part of the customer, as they are not burdened by the obligation of fixed interest rates that can balloon (Haris, 2021). For example, many Islamic microfinance institutions use products such as murabahah, musyarakah, and mudharabah to provide financing, all of which focus on the principle of cooperation and balance between rights and obligations (Mulyadi & Wulandari, 2021).

Islamic microfinance also has advantages in improving social welfare (Riyadi & Hasanah, 2021). Islamic microfinance institutions are not only oriented towards profit, but also towards community empowerment (Pratiwi & Solichah, 2020). Many of these institutions provide financing for small and medium enterprises (SMEs), which are one of the important pillars of the Indonesian economy (Syamsudin, 2022). Thus, Islamic microfinance not only helps individuals in meeting their consumptive needs but also supports increasing the economic capacity of the community through productive financing (Nuryanti, 2021). In addition, Islamic microfinance is able to create a sense of security and trust among the community (Sari, 2022). Many Indonesians prefer financial products that are in accordance with their religious principles, and Islamic microfinance provides an alternative that is in accordance with Islamic values (Iskandar & Abdullah, 2021). This success is reflected in the increasing level of community participation in Islamic microfinance institutions, which in turn increases overall financial inclusion (Setiawan, 2022). With a higher level of trust in Islamic financial institutions, the community feels more comfortable in utilizing the products and services offered (Mulyadi, 2021).

However, despite these clear advantages, this study also found that the implementation of sharia principles in microfinance in Indonesia still faces a number of significant challenges (Setiawan & Kusuma, 2022). One of the main challenges is the limited public understanding of sharia principles in microfinance (Hadi, 2021). Although Indonesia is predominantly Muslim, not all levels of society have a deep understanding of the differences between conventional and sharia financial systems (Nugroho & Sari, 2020). Many people still think that sharia financial services are similar to conventional financial services, especially in terms of how the products work and the financing mechanisms offered (Aminah, 2021). For example, there is a misconception about the profit-sharing system applied in sharia microfinance, which is considered not much different from interest in the conventional banking system (Sutrisno & Lestari, 2020). This lack of understanding of sharia principles has an impact on the level of public trust in sharia microfinance institutions (Yusuf & Alam, 2021). Although sharia principles aim to maintain justice and avoid elements of exploitation, people who do not fully understand the mechanism may feel hesitant or worried that they will remain trapped in detrimental debt (Pratama & Ali, 2022). Therefore, it is important to improve sharia financial literacy among the community, so that they can better understand and utilize financial products that are in accordance with Islamic principles (Fahmi, 2021).

Another challenge is the limited access of the community to Islamic microfinance institutions, especially in remote areas and areas with low levels of financial literacy (Sari & Arif, 2021). Although Islamic microfinance institutions have developed, their presence is still very limited in some areas, especially outside big cities (Wahyudi, 2022). These institutions often face obstacles in reaching the poor or micro-entrepreneurs who need financial assistance the most (Hasanah, 2020). The limited network and trained human resources in these areas make it difficult for Islamic microfinance institutions to expand their service coverage (Fatimah & Jamil, 2021). In addition, although the Islamic microfinance sector has great potential, regulatory challenges are still an obstacle (Prasetyo & Mulyani, 2020). As discussed earlier, although there are laws that regulate Islamic banking in general, Islamic microfinance often does not receive adequate attention in government policies (Kurniawan, 2021). This makes the Islamic microfinance sector less supported by the government, both in terms of fiscal policy, regulation, and financing (Amelia, 2022). Without regulations that are more focused on developing this sector, Islamic microfinance institutions find it difficult to develop and compete with more established conventional financial institutions (Indrawati, 2021).

Limited resources are also another major challenge in the development of Islamic microfinance. Many Islamic microfinance institutions operate with limited resources, both in terms of capital, technology, and human resource expertise. These limitations greatly affect the competitiveness and ability of these institutions to grow optimally. Without adequate capital support, these institutions often have difficulty expanding their networks and offering innovative products that can attract more customers. One of the main aspects that is hampered by limited capital is the ability of Islamic microfinance institutions to expand their operational capacity. In the world of microfinance, it is very important to have access to sufficient capital in order to provide greater financing to customers, especially for micro and small business actors who need productive loans to develop their businesses. Without access to sufficient funds, these institutions are only able to serve a limited number of customers, which limits the positive impact they can have on empowering the community's economy. In addition, limitations in terms of technology are also a major obstacle in the development of Islamic microfinance. Many

Islamic microfinance institutions still use manual systems in managing administration and recording transactions, which of course slows down operational processes and increases the potential for errors. On the other hand, information technology and digitalization are key to accelerating services and expanding the reach of Islamic microfinance institutions, especially in hard-to-reach areas. Without the adoption of the right technology, these institutions will have difficulty competing with conventional financial institutions that are more advanced in terms of the use of technology, such as mobile banking applications and other digital platforms that facilitate customer access to services.

Human resource (HR) expertise is also a determining factor in the success of Islamic microfinance institutions. Many Islamic microfinance institutions still lack workers who have expertise in finance and management, especially in terms of implementing Islamic principles in every aspect of operations. Risk management, business feasibility analysis, and a deep understanding of fiqh muamalah are very important in running Islamic microfinance institutions. Without competent workers in this field, the institution will have difficulty ensuring that all transactions carried out are in accordance with Islamic principles, which in turn can damage the credibility and trust of customers. In addition, limited human resources also affect the ability of institutions to innovate in the products and services they offer. In the world of microfinance, it is important for institutions to be able to offer products that are in accordance with the needs of the community and economic developments. Innovative products can provide solutions to the challenges faced by micro and small business actors, for example profit-sharing-based financing, savings products that are in accordance with Islamic law, and financing for working capital and investment. Without trained human resources who have a good understanding of market needs, Islamic microfinance institutions will have difficulty in designing and implementing products that can compete in the market.

Limited capital and technology also affect the ability of Islamic microfinance institutions to expand their reach. Most Islamic microfinance institutions still operate conventionally in branch offices or certain locations, making it difficult for them to reach people in remote areas or areas with limited access. In this condition, the adoption of digital technology, such as mobile applications for loans or Islamic crowdfunding platforms, can be a solution to expand access to Islamic microfinance to more customers in various regions. However, without sufficient investment in technology development, these institutions will find it difficult to keep up with the times and provide services that meet customer expectations. To overcome these challenges, cooperation is needed between Islamic microfinance institutions and the government, the private sector, and educational and training institutions. The government can provide incentives for Islamic microfinance institutions in the form of technology subsidies, cheap financing, or HR training assistance. On the other hand, the private sector, especially technology companies, can play a role in providing digital platforms and technological solutions that can be used by these institutions to increase efficiency and expand access to services. Educational institutions can also play a role in providing training programs to improve the skills and knowledge of the workforce in the field of Islamic microfinance. In addition, Islamic microfinance institutions also need to continue to innovate and update their business models to remain relevant to economic developments and market needs. This includes increasing collaboration with other Islamic financial institutions, sharing knowledge and resources, and adapting to the increasingly diverse needs of customers. With adequate support, both from the government, the private sector, and educational institutions, it is hoped that Islamic microfinance institutions can overcome the resource limitations they face and provide a greater impact on empowering the economy of the

Indonesian people. In addition, without adequate technological support, Islamic microfinance institutions also have difficulty accessing the data needed to analyze risks or provide more efficient services.

Another equally important challenge is the risk of moral hazard and misuse of funds associated with weaknesses in the internal control and supervision systems of Islamic microfinance institutions. In many cases, smaller Islamic microfinance institutions often struggle to implement strong internal control systems, which can reduce the potential for misuse of funds by irresponsible parties. In addition, weak supervision by regulators can also lead to practices that are not in accordance with Islamic principles, thereby harming customers and damaging the reputation of the Islamic microfinance sector as a whole. To overcome these challenges, this study suggests that Islamic microfinance institutions focus more on improving Islamic financial literacy among the community, especially in areas that are still isolated from banking services. In addition, there needs to be cooperation between Islamic microfinance institutions and the government to create regulations that better support the development of this sector, both in terms of financing, fiscal policy, and supervision. Support in the form of human resource training and providing access to technology will also greatly assist these institutions in developing more efficient services based on community needs.

Overall, although Islamic microfinance in Indonesia shows great potential in supporting community economic empowerment, these challenges need to be addressed immediately so that this sector can develop more optimally and provide a wider impact on the welfare of the Indonesian people, especially in increasing financial inclusion and reducing economic inequality. One of the main challenges is the limited public knowledge about the concept and practice of Islamic microfinance. Many customers do not fully understand the mechanisms and products of Islamic finance, which can hinder the optimization of the benefits that can be obtained from these services. Therefore, efforts are needed to improve Islamic financial literacy among the community, so that they can utilize these products better and wiser. In addition, another challenge found in this study is the lack of regulations that support the optimal development of the Islamic microfinance sector. Although in Indonesia there are adequate regulations for Islamic financial institutions in general, such as Law No. 21 of 2008 concerning Islamic Banking and various regulations governing other financial institutions, the Islamic microfinance sector is often neglected in government policies. The existence of more focused and specific regulations for this sector is very important, considering the unique characteristics of Islamic microfinance which is different from large Islamic financial institutions such as Islamic banks.

Islamic microfinance operates on a smaller scale, with a primary focus on economic empowerment of the poor and groups not covered by the conventional banking system (Ramadhani & Siti, 2021). Current regulations tend to prioritize large Islamic banks and other formal financial institutions, while Islamic microfinance often lacks a clear legal framework that supports its operations (Taufiq & Indrawati, 2020). Without proper regulations, Islamic microfinance institutions cannot operate efficiently, especially in terms of risk management, financing, and customer protection (Husna, 2022). One aspect that needs to be considered in regulation is the regulation of the form of Islamic microfinance institutions. In Indonesia, Islamic microfinance institutions are mostly in the form of Islamic cooperatives, Baitul Maal wa Tamwil (BMT), or other micro institutions that do not yet have a clear legal status such as Islamic banks (Ahmad & Yulianto, 2021). This causes difficulties in supervision, licensing, and access to bailout funds or financing from government institutions (Fatimah & Budi, 2020). In this context, clearer regulations regarding the establishment, supervision, and management of these institutions would be very helpful in ensuring their sustainability and growth (Mukti & Rahmawati, 2022).

Clear regulations are also very important in introducing and expanding the reach of Islamic microfinance products (Alfiyah, 2021). Without clear guidelines, Islamic microfinance institutions have difficulty developing innovative products that are in line with market needs, such as productive loans or small business financing (Sari, 2022). This hinders innovation that should be able to support the growth of the Islamic microfinance sector more quickly and effectively (Hidayat & Putra, 2023). Regulations that govern the development of innovative Islamic microfinance products, while maintaining Islamic principles, can provide space for these institutions to further develop and expand their customer base (Syam & Zaki, 2021). In addition, the lack of regulatory support also affects the use of technology in the Islamic microfinance sector. In this digital era, many Islamic microfinance institutions are trying to adopt technology to expand access and operational efficiency (Hasanah, 2020). However, without regulations that support technology adoption, many of them find it difficult to innovate, such as in the use of sharia mobile banking applications or digital platforms for microfinance (Ariani & Sulaiman, 2022). The government needs to provide regulations that facilitate the use of technology in sharia microfinance, including rules related to data security and transactions that are in accordance with sharia principles (Fathima, 2021).

It is important to note that the government's role in building a regulatory ecosystem that supports Islamic microfinance is not only limited to making regulations, but also providing training and capacity building for Islamic microfinance institutions (Kurniawati, 2021). The government can provide incentives for these institutions in the form of technical training, guidance on risk management, and support in access to financing (Mulyani & Pratama, 2022). With better regulations and stronger policy support, the Islamic microfinance sector can grow faster, which in turn will improve the economic welfare of the community, especially low-income groups and small business actors (Rizky, 2023). Furthermore, with more comprehensive regulations, Islamic microfinance institutions can function more efficiently and be accessible to more people (Hafizh, 2021). Supportive policies will also allow them to obtain bailout funds from the government or the private sector that will allow them to expand their services (Aulia, 2022). Thus, the important role of the government in improving and strengthening regulations for Islamic microfinance in Indonesia is very much needed, so that this sector can have a greater impact in reducing social inequality and strengthening financial inclusion throughout Indonesia (Yulianto, 2023). Therefore, a more specific and focused policy is needed to support the development of this sector, so that it can achieve its goals in empowering the community's economy more optimally (Aditya & Sari, 2021).

Overall, despite the challenges that must be faced, the implementation of sharia principles in microfinance in Indonesia provides great benefits to society, especially in creating a more inclusive, fair, and sustainable financial system (Sari & Mahendra, 2021). The advantages of sharia microfinance show that this sector has enormous potential to support Indonesia's economic growth, especially among people who have not had access to formal financial services (Fitria & Rahman, 2022). One of them is its ability to offer a fairer financing alternative for people who are not covered by the conventional banking system. By using a profit-sharing system, sharia microfinance institutions are able to reduce the interest burden that usually burdens customers (Pratiwi, 2023). However, the implementation of sharia principles is not without challenges. One of the main challenges found in this study is the lack of understanding of sharia principles, both among business actors and the general public. Many borrowers do not fully understand how sharia principles work in the context of microfinance, which causes uncertainty and concern about the services provided (Hidayat & Farah, 2021). In addition, existing regulations are still considered inadequate to support the optimal development of Islamic microfinance (Sutrisno, 2022). Although there are regulations that support the development of Islamic financial institutions, the implementation of these regulations at the micro level is often hampered by bureaucracy and an imbalance between government policies and market needs (Baharudin, 2023).

Alternatively, Islamic microfinance institutions can increase education about sharia principles to the community, and work with the government to strengthen policies that support financial inclusion. This can help create greater awareness of the advantages of Islamic microfinance and increase community participation in the financial system (Susanto & Hidayat, 2022). The success of Islamic microfinance in Indonesia also depends on product and service innovations that are in line with community needs. The products offered by Islamic microfinance institutions must be easily accessible and understood by the community, and provide clear benefits without burdening borrowers (Salim & Amir, 2023). Overall, the implementation of sharia principles in microfinance in Indonesia shows great potential to support financial inclusion and community economic empowerment. Although there are challenges that need to be overcome, Islamic microfinance can be one solution to create a fairer and more sustainable financial system in Indonesia (Hafiz & Wibowo, 2022).

CONCLUSION

Based on the results of this study, it can be concluded that the implementation of sharia principles in microfinance in Indonesia provides a great opportunity to improve the economic welfare of the community. Although the challenges faced are quite significant, especially in terms of understanding and regulation, sharia microfinance still shows great potential in supporting financial inclusion in Indonesia. This study also suggests the need to strengthen policies and increase education for the community regarding sharia principles in microfinance, as well as product and service innovations that are more in line with the needs of the community. The success of the implementation of sharia principles in the microfinance sector is highly dependent on collaboration between financial institutions, the government, and the community.

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