
INSTITUTIONAL AND POLICY DEVELOPMENT IN ISLAM

Naufal Nurhidayat¹, Dina Mariana Ulpah², Hanafi Nugraha³, Imas Sunengsih⁴
^{1,2,3,4}Sekolah Tinggi Ilmu Ekonomi dan Bisnis Syariah (STIEBS) Al-Amin, Tasikmalaya,
Indonesia
Email: naufalnurhidayat97@gmail.com

Abstract

This journal examines Islamic development institutions and policies. It aims to learn more about Islamic institutional and development policies in ensuring that the interests of society are aligned with the principles of Shari'a. The method used in this journal is a qualitative approach obtained from the literature of books, articles and the internet and refers to previous research that is collaborated into related discussions so that the author can provide systematic and relevant conclusions. The results of this journal state that institutions and policies have a relationship in development, especially the country's economy, which is realized through special institutions related to public welfare, such as shari'a banking, shari'a pawn shops, BAZNAS, BMT. In Islam, economic development is not only a physical necessity, but is oriented towards spiritual development through aspects of tawhid, khalifah politics, tazkiyah, and physical development.

Keywords: *Institutional, Policy, Islamic Development.*

A. INTRODUCTION

The world is constantly evolving as more and more people cause different kinds of problems in the economy, the fact that the economy is fundamental to human beings. This, however, includes the question of how can people meet their various needs in everyday life? With the development of economic development, it will demand the existence of institutions and policies of a government. Institutional comes from the word bureaucracy which means an organization with a pyramid-shaped chain of command, with more people at the bottom than at the top, usually found in institutions of an administrative nature. Institutional was first introduced by Max Weber in 1947. According to him, institutional is a formal organizational system that is efficient, rational and has certain characteristics (Thaha, 2009).

To the smooth implementation of development aimed at improving infrastructure for the benefit of human life. With the emergence of institutions is a response to the situation and conditions in society to see changes in sustainable development. The application of institutions will not be separated from the norms or regulations in force in the state, which are closely related to government policies and people's attitudes towards regulation. The policy should be based on the principles of shari'a in accordance with the Quran and the Hadith.

Policy is a rule that has been taken by political actors in order to choose goals and how to achieve goals (Suandi, 2010). In Islam economic policy was practiced long before the time of the Prophet Muhammad and his companions. This happened when the Prophet was appointed head of state in Medina. He brought about drastic changes in the management of the lives of the people of Medina. It is to build a decent social life every human life is built on the values of the Qur'an. In this case include an economic system based on the principles of equality, freedom, justice and virtue.

Based on the background of the problem by not understanding other factors, the writing of this paper will delve deeper into "Institutions and Economic Development Policies in Islam". The aim of this research is to analyze institutional and policy development strategies in Islam.

B. LITERATURE REVIEW

In this literature review, the author will present three studies that are related to the variables that will be discussed, namely “Policy and Institutional Development in Islam” The information obtained is in the form of theories, concepts and generalizations of results.

In Veblen’s opinion institutionalization is a set of ideal rules and conditions (dramatically changed) that are imperfectly repeated by custom in each subsequent generation (Yustika, 2012). While in opinion defines institutionalization as rules of games that play an important role in the efficient, equal, and sustainable allocation of resources (Furubotn, 2001).

Islamic economics comes from two words, namely economics and Islam, according to the opinion (Hasibuan, 2003). Economics is an economic knowledge with units of social sciences, such as politics, law, sociology, history, and anthropology which are then combined in economic analysis, but still have different perspectives. The existence of institutional intermediaries is expected to reduce doubts in all interpersonal ties. and groups by creating examples of absolute and transparent behavior. We often think of institutions and organizations as the same, when in fact they are different.

What is meant by policy is a set of plans or decisions that are used as a reference for actions in the form of programs related to achieving goals. Meanwhile, what is meant by development policy is a policy that is the basis for implementing development activities with certain objectives to achieve the welfare and standard of living of the community (Purba, 2021).

In Islamic perspectives, economic development is not only about physical needs but is based on spiritual development that focuses on benefiting mankind from extinction, good human resources will reflect halal sources of income, safeguarding and protecting natural damage, sustainable land use and paying taxes to the state (Djumadi, 2016).

Sarjan (2022); examined the Local Government Policy Analysis of the Economic Development Sector in Kuantan Singingi District. This journal explains how successful development is when viewed from the seriousness of the government in the economic policy process with the aim of reviewing the decision-making process of the economic development sector, the implementation of economic policies and the influence of economic development on the welfare of the people in Kuantan Singingi Regency. The results of this study show that local government policies in the economic development sector are not related to the programs prepared. When the state of economic growth and economic development activity is still low.

C. METHOD

The method used in this journal is a qualitative descriptive approach, the source of data obtained is derived from book literature, articles and the internet by referring to the results of previous research and collaborating into related discussions so that the author can provide systematic and relevant conclusions to readers.

D. RESULT AND DISCUSSION

The Islamic economic system must be based on ethical principles with institutional capacity in the form of laws or regulations to provide a framework for how the economy and society can properly fulfill institutional functions (Mahri et al., 2021). This is an Islamic economy that becomes a reference for formal rules such as legal and informal regulations as well as a guideline for the community to carry out economic activities without violating sharia principles. The prohibition of *Nahy Munkar* principles such as the prohibition of flowers (*usury*), transparency (*gharar*), fraud (*maisir*) and elements that prohibit either substance or process and elements of injustice to others (Kholid, 2018).

1. Institutional Forms in Islamic Economics Rill Sector Institutions (Halal Product Business Actors)

The real sector is a sector that is directly related to the economic activity of a community and affects its existence and can be used as a reference in determining economic growth. According to Irfan Syauqi, the real sector is highly dependent on economic growth. This real sector is likened to an economic cog (Zibbri et al., 2021).

The real sector brings a fundamental position for the country's economic growth especially in Indonesia (Asy'ari & Wahyuningsih, 2013). This shows how big the impact of the commodity and service market is in supporting the country's economy. A country can be said to be successful if economic growth in the goods market and money market is stable and non-volatile.

One example of an institutional institution in the real sector of shari'ah in Indonesia is a cosmetic company commonly known as wardah products produced by PT. Paragon Technology. Wardah products are pioneers of halal-labeled beauty and are registered with LPPOM MUI, but the halal label does not restrict Muslim female consumers only, but is related to guarantees, because the product formulates safe ingredients without containing harmful ingredients. Thus, the development of the real sector has become a special concern of the government which is reflected in how to establish a legal framework for the development of the domestic halal product industry, one of which is Law Number 33 of 2014 concerning Halal Product Guarantees. The law covers protection, fairness, legal certainty, accountability and transparency, effectiveness and efficiency and professionalism. It is explained that with the guarantee of halal products, business actors can increase added value to produce and sell their halal products (Mahri et al., 2021).

2. Shari'a Financial Sector Institutions

a. Baitul al-Maal wa at-Tanwil (BMT)

BMT is a microfinance institution with dual activities, namely Baitul Maal and Baitul Tamwil. Baitul Maal activities at BMT are financial institutions whose activities include managing social funds, which are sourced from zakat, infaq, sadaqah, and other halal sources, then distributed to people who are entitled to receive them (mustahik). Baitul Tamwil activities are financial institutions whose activities are the collection and distribution of profit-oriented public funds (Mashuri, 2016).

According to Soemitra (2009), BMT has different characteristics from Islamic microfinance institutions and similar financial institutions. But it has the following special properties:

- 1). Business-oriented, seeking mutual profit, increasing maximum economic utilization for the benefit of the people
- 2). BMT is not a social institution, but helps in and effectively manages zakat, infaq and alms funds for the welfare of the people
- 3). Grown from the bottom based on the participation of the surrounding community
- 4). Financial institutions jointly owned by small communities and the BMT environment.

The mission of Baitul al-Maal wa at-Tanwil (BMT) is to help the majority of small communities to improve their economy. Therefore, the overall mission of Baitul al-Maal wa at-Tanwil is to provide guidance and financing based on the shari'a system, emphasizing the importance of shari'a principles that are directly related to people's lives. Therefore, BMT plays an important role in the development of Islam in all aspects of people's lives (Mashuri, 2016).

b. Shari'a Banking

Shari'a bank is a banking institution whose operations and products are developed based on the Quran and Al-Hadith. In other words, Shari'a Bank is a financial institution whose main activities are the provider of financial services and other payments as well as the circulation of money whose operation is in accordance with the principles of Islamic law (Wilardjo, 2005). The conceptual difference between shari'a banks and conventional banks is that shari'a banks do not implement an interest or usury system in all their operations, while conventional banks use an interest system (Mahri et al., 2021). This has very deep implications and has an impact on operational aspects and Islamic banking products. Islamic banking, more value is placed in the system of work and partnerships, cooperation especially on the willingness of all parties to share even in matters of profit and loss.

Based on the concept Hutagalung (2021), Shari'a Bank in carrying out its operations must apply the following principles:

- 1). The principle of fairness, this principle is reflected in the application of rewards on the basis of profit sharing and profit-taking that are mutually agreed upon.
- 2). The principle of partnership, shari'a banks place the same position as customers between depositing funds, customers using funds, and banks that are equal in acting with business partners.
- 3). The principle of transparency, namely through continuously open financial reports, so that customers can find out the level of fund security and the quality of bank management.
- 4). The principle of universality, the bank in supporting its operations does not discriminate against ethnicity, religion, race, class of society with the Islamic principle as Rahmatan Lil Alamin.

The existence of Islamic banking as an intermediary for shari'a finance has become a fundamental tool in driving national economic development. Islamic banking is in a strategic position because it plays a role in the development of the national real sector economy. As a well-functioning financial intermediary, Islamic banking can contribute to economic growth through investment and finance-based business financing. According to Ahmaddiono in his book the role of Islamic banks can be realized in the following matters:

- 1). As the glue of the new nationalism, Islamic banks can act as promoters in the formation of community economic business networks
- 2). Deep clear reinforcement and operation. To manage Islamic banking, it needs to be based on the vision of the national economy and the goals that can be achieved through clear procedures
- 3). Encourage a reduction in financial market speculation
- 4). Showing good behavior and encouraging shari'a bank institutions to be more advanced.

c. Shari'a Pegadaian

In Arabic, pawnshop is known as Rahn which means fixed and lasting. Meanwhile, according to the term, it is an agreement to hold the borrower's property (rahin) as collateral (marhun) against the loan received/borrowed (marhun bih), and the guarantee must have economic value [20]. The concept of rahn itself has been stated in the Quran Q.S. al-Baqarah [2]: 283, namely: "*And if you are on the way you don't get a writer, then there should be a bail held.*" The phrase "*let there be dependent goods*" is interpreted as a pawn (Pasaribu & Lubis, 2004).

The moderate development of small businesses will affect the growth of the surrounding area, and will also have an impact on a broader level, that is, economic growth. Mortgages become one of the financial alternative financing when fast funds are needed to

finance household consumption and production and offer secure financing, usually with a longer period of time. Small and medium enterprises can obtain capital needs to meet their operational needs. Good small business growth will have an impact on strengthening the surrounding environment which will also have an impact on the macro level, namely on economic growth (Mahri et al., 2021).

3. Shari'a Social Finance Sector Institutions

Institutions in the social sphere are institutions that do not lead to profit but are more concerned with the welfare of society. In this sector that has basic elements, among others non-governmental, non-profit, and values-driven (Mahri et al., 2021).

The Indonesian social institutions with the same goal to find solutions to various economic and social problems include the following:

- a. Zakat Institutions: BAZNAS (National Amil Zakat Agency), LAZ (Amil Zakat Institute).
- b. Waqf Institutions BWI (Indonesian Waqf Board): Waqf Tube of Dompot Dhuafa, Quranic Waqf Board, Ma'had Ibnussabil Waqf Institute Indonesia.

4. Development Policy in Islam

Policies and institutions will affect the country's economic performance. Adaptation is required to occur institutional change. Which institutional change is a constant process, and becomes part of development (Yustika, 2012).

Recognize the concept of economic development policy in Islam, namely the concept of development based on tawhid, caliph and tazkiyah, spiritual moral physical development, human beings as subjects and objects of development to achieve wealth, the role of the state, and the time scale of development covering the world and the hereafter (Sudarmanto et al., 2021).

If the concept of development policy in Islam is linked to the SDGs (Sustainable Development Goals), among others:

- a. Improvement of science and technology Islam teaches humans to improve science and technology, as Allah Almighty says in QS. al-Alaq, verses 1-5, is intended to benefit the usefulness of all human beings. Thus, they are able to feel the impact of the development of science and the advancement of information to facilitate work, education, and communication.
- b. Efficiency of law and justice According to Nawawi, to make it possible that the law must relate well to the laws of nature then all directions and social laws in each individual. With this according to the verses of the Quran QS. Fussilat verse 53. When connected with the achievement of the 16th SDGs, namely reconciliation, equality and strong institutions. Therefore, protection in Islamic law becomes very important. Such efforts have been regulated and protected by religion, according to Islamic law religiously binding rules are equal before the law and there is no differentiation between the rich and the poor, men and women.
- c. Optimization of Investable Resources All resources used for moving the wheels of the economy is called Investable Resources. Those resources among others natural resources, resources people, and capital resources. The task obliging humans to keep balance existing resources with bringing together needs and scarcity that impacts the use of sources optimum power. If associated with SDGs then this will be related to the objectives provision of affordable modern energy, later related to the protection of life natural resources and their scope.

- d. Resources that can be invested include natural resources and human resources. This function requires humans to protect the equality of available resources to meet desires as well as generate optimal resources. When connected with the achievement of the SDGs, it will be connected to the achievement of modern energy providers and protect abundant natural resources.
- e. Education and Health The education sector plays an important role in producing quality Human Resources (HR). The health sector helps the creation of healthy human resources physically and spiritually, so that it will become a quality generation and contribute to the economic development of the country. When connected with the achievement of SDGs 4 and 9, it will refer to fair, quality education and lifelong learning without separation under the protection of soul, reason, and offspring according to the purposes of Islamic law.
- f. The development of human resources and entrepreneurship Development builds not only the economy, but also spiritual attitudes and needs (Mahri et al., 2021).

E. CONCLUSION

Institutions are a set of norms that race against formal or non-formal rules by not violating the principles of Shari'a. The institutional forms in the Islamic economy include: Halal Rill Sector, Shari'a Financial Sector such as Baitul al-Maal wa-Tanwil. Shari'a Banking, and Shari'a Pawnshops and the Shari'a Social Finance Economic Sector such as Zakat Institutions (BAZNAS and LAZ) and Waqf Institutions (Indonesian Waqf Agency, Dompot Dhuafa Waqf Tube, Al-Quran Waqf Agency, Ma'had Ibnussabil Indonesia Waqf Institution).

Institutional relations are very closely related to determining the country's economic development policy. The economy is said to be successful if an institution implements the following development strategies: comparative and competitive reliability, import substitution, export promotion, centralization, decentralization and privatization. In the Islamic perspective, economic development is not just a physical need but a spiritual mental development. Islamic economic development policy concepts include: the concept of development based on tawhid, caliphs and tazkiyah, spiritual moral physical development, man as the subject and object of development to achieve wealth, the role of the state, and the time scale of development covering the world and the Hereafter.

REFERENCES

- Antonio, M. S. (2001). *Bank Syariah dari Teori ke Praktik*. Jakarta: Gema Insani.
- Aprianto, N. E. K. (2016). Kebijakan distribusi dalam pembangunan ekonomi islam. *Al-Amwal: Jurnal Ekonomi dan Perbankan Syari'ah*, 8(2).
- Asy'ari, M. A., & Wahyuningsih, D. (2013). Analisis Pengaruh Sektor Moneter dan Sektor Riil Terhadap Jumlah Uang Beredar di Indonesia (Periode 2005: III-2012: IV). *Media Trend*, 8(1), 42-58.
- Azansyah, A. (2013). Peran kelembagaan dalam perekonomian, kondisi pembangunan kelembagaan di Indonesia, dan membangun lembaga yang efektif. *Ekbisi*, 7(2).
- Djumadi, D. (2016). Konsep Pembangunan Ekonomi Perspektif Islam. *TAHKIM*, 12(1), 1-16.
- Furubotn, E. G., & Richter, R. (2010). *Institutions and economic theory: The contribution of the new institutional economics*. University of Michigan Press.
- Hasibuan, N. (2003). *Sejarah Pemikiran Ekonomi*. Jakarta: Pusat Penerbitan Universitas Terbuka.
- Hutagalung, M. W. R., & Arif, M. (2023). Analisis Pembiayaan Murabahah Terhadap Pelaku UMKM di Sumatera Utara. *Jurnal Syarikah: Jurnal Ekonomi Islam*, 9(2), 289-297.

- Kholid, M. (2018). Prinsip-Prinsip Hukum Ekonomi Syariah Dalam Undang-Undang Tentang Perbankan Syariah. *Jurnal Asy-syari'ah*, 20(2), 147-148.
- Mahri, A. J. W., Al Arif, M. N. R., Widiastuti, T., & Fajri, M. (2021). Ekonomi Pembangunan Islam. *Advances in Social Science, Education and Humanities Research; Publisher: Atlantis Press*, 1(1).
- Mashuri, M. (2016). Peran Baitul Maal Wa Tamwil (BMT) dalam upaya pemberdayaan ekonomi masyarakat. *IQTISHADUNA: Jurnal Ilmiah Ekonomi Kita*, 5(2), 114-123.
- Pasaribu, C., & Lubis, S. K. (2016). *Hukum Perjanjian dalam Islam*. Jakarta: Sinar Grafika.
- Purba, B., Rahmadana, M. F., Basmar, E., Sari, D. P., Klara, A., Damanik, D., Faried, A. I., Lie, D., Fazira, N., Rozaini, N., Tanjung, R., & Nugraha, N. A. (2021). *Ekonomi Pembangunan*. Medan: Yayasan Kita Menulis.
- Sarjan, M. (2022). Analisis Kebijakan Pemerintah Daerah Pada Sektor Pembangunan Ekonomi di Kabupaten Kuantan Singingi. *Yudabbiru Jurnal Administrasi Negara*, 4(1), 60-74.
- Soemitra, A. (2009). *Bank Dan Lembaga Keuangan Syariah*. Jakarta: Kencana.
- Suandi, I. W. (2010). Eksistensi Kebijakan Publik dan Hukum Dalam Penyelenggaraan Pemerintahan Daerah. *Jurnal Ilmiah Fakultas Ilmu Sosial dan Ilmu Politik*, 1(1), 14-28.
- Sudarmanto, E., Rahmadana, M. F., Rozaini, N., Suleman, A. R., Basmar, E., Amruddin, A., ... & Nugraha, N. A. (2021). *Ekonomi Pembangunan Islam*. Medan: Yayasan Kita Menulis.
- Thaha, R. (2009). Penataan Kelembagaan Pemerintahan Daerah. *GOVERNMENT: Jurnal Ilmu Pemerintahan*, 2(1), 39-62.
- Wilardjo, S. B. (2005). pengertian, peranan dan perkembangan bank syari'ah Di Indonesia. *Value Added: Majalah Ekonomi Dan Bisnis*, 2(1).
- Yustika, A. E. (2012). *Ekonomi Kelembagaan: Paradigma, Teori dan Kebijakan*. Jakarta: Erlangga.
- Zibbri, M., Awwaliah, H., Lailussoma, L., & Nur, M. F. (2021). Dampak Pandemi Covid-19 Terhadap Sektor Riil: Telaah, Harapan dan Penentuan Arah Kebijakan Sustainable Development Goals (SDGs) dan Ziswaf. *JES (Jurnal Ekonomi Syariah)*, 6(1), 53-63.