Modeling the Comparative Advantage of Sharia Financing to Support Indonesia's Sustainable Business Sector

Budi Susetyo[1] Surachman Hidayat[2] Qurroh Ayuniyyah[3] Najamudin[4] Suzan Nur Wahyuniwati[5]

[1,2,3,4,5] Universitas Ibn Khaldun Bogor, Indonesia
budi.susetyo@uika-bogor.ac.id

Abstract. This paper investigates the comparative advantage of Sharia financing in fostering the sustainable business sector in Indonesia. The study explores the economic potential that can be harnessed through Sharia financing, identifying the most promising business sectors for regional development. The research lays a foundation for the strategic expansion of Sharia services in Indonesia by modeling the allocation of Sharia financing across various regions and sectors. The analysis identifies key sectors with the highest potential for Sharia financing, emphasizing their comparative advantage in driving long-term sustainable growth. The findings reveal a concentration of funding of in specific sectors, with the Agriculture, Hunting, and Forestry sectors being particularly prominent in West Kalimantan Province, followed by Bangka Belitung, Central Kalimantan, Papua, Riau, Bengkulu, and East Kalimantan. According to the Localization Index (LI), all sectors have relatively equal development opportunities, especially the Mining and Quarrying and Electricity, Gas, and Water sectors. The Specialization Index (SI) analysis indicates that no single sector is consistently dominant across Indonesia's provinces. These insights offer valuable guidance for policymakers, financial institutions, and businesses seeking to integrate Sharia principles into sustainable economic practices.

Keywords: Islamic rural bank, Islamic economics, Regional comparative advantage analysis.

1 Introduction

The field of sustainable economics has drawn attention to funding sources that adhere to moral and environmental principles. With its focus on ethical investing, risk-sharing, and the ban on usury, Sharia financing offers a chance to advance Indonesia's sustainable economic sectors. Sharia-compliant financial instruments, in contrast to traditional financing, are made to ensure that all financial transactions are connected to actual economic activity, promoting transparency and lowering speculation. The principle of balance (tawazun) between economic and social activity is upheld by Islamic financial institutions (Nurlaeli et al., 2021). The development of additional Islamic financial instruments can be aided by the stability and accuracy of Islamic banking when it comes to funding decisions, particularly in Indonesia, an agrarian nation where

W. Widyasari et al. (eds.), *Proceedings of the 2nd Ibn Khaldun International Conference on Applied and Social Sciences (IICASS 2024)*, Advances in Social Science, Education and Humanities Research 871,
https://doi.org/10.2991/978-2-38476-299-6_2

Islamic banking has experienced notable growth. Islamic banks provide public funds from third parties priority when funding different industries (Alam et al., 2022).

One of the increasingly important financial options in the current period is sharia-based financing. Islamic financing is founded on Islamic beliefs and concepts that support justice, balance, and benefit, in contrast to the traditional interest-based economy. With today's diverse economic and social issues, Islamic finance is thought to have considerable promise for promoting economic expansion in line with sustainability principles. Leading authority on the conceptualization of poverty and its remedies, Yusuf Qardhawi, contends that Islamic economics is based on a number of fundamental principles, including moderation, ethics, divinity, and humanity (Adilla, 2023). Concepts of fairness and balance, as well as sharia values and principles in finance. Justice and equilibrium are crucial components of the Islamic economic system, according to Yusuf Qardhawi. This is demonstrated in Islamic financing by avoiding exploitative tactics and ensuring equitable risk and profit-sharing among all participants. Usury, gharar, and maysir are forbidden. Qardhawi vehemently opposes the Islamic prohibitions against usury, gharar (uncertainty), and maysir (gambling). For the sake of blessings and the preservation of transaction integrity, Islamic financing must be devoid of these components. Blessing and benefit principles. According to Qardhawi, Islamic economic endeavors ought to be oriented toward blessings and the betterment of society. The goal of Islamic finance should be to promote affluence and productivity that is sustainable.

Contract-based financial instruments that follow Sharia law include mudharabah, musyarakah, ijarah, murabahah, and others. These are known as Islamic financing instruments. Although the features and uses of each instrument vary, they are all based on the principles of fairness, equilibrium, and advantage. Islamic financial organizations' contribution to sustainability By providing funding that is consistent with Islamic principles, Islamic financial institutions—such as Islamic banks and Islamic financing institutions—play a crucial role in promoting sustainability. In terms of the implications for policy, the Financial Services Authority of Indonesia ought to focus more on the sectoral and regional factors that contribute to non-performing financing in Islamic banks. To attain and sustain the performance of non-performing financing in Islamic banks, sectoral and regional-based policies should also be created (Fakhrunnas et al., 2022). Tahzib al-fardi (educating society), iqamah al-‘adl (creating justice), and jalb al-maslahah (public interest) are the three primary goals of Maqashid Shariah. Islamic banking in Indonesia is more prevalent in achieving the goal of Iqamah al-Adl based on the elements of maqashid sharia; thus, regional development banks in Indonesia are more concentrated on putting Sharia principles into practice (Yusup & Nasution, 2020).

The role that Islamic finance plays in supporting sustainable development. With its foundation in Islamic principles, Islamic finance holds enormous promise for promoting sustainable development. Islamic finance can make a comprehensive contribution to social, economic, and environmental issues through benefit-oriented financing. Islamic finance and sustainable development objectives working together There are various ways in which the United Nations' Sustainable Development Goals (SDGs) fit with the ideals and tenets of Islamic finance. The combination of these two factors can boost attempts to accomplish sustainable development. A complete approach is needed to promote sustainable Islamic financing, one that includes strengthening the capabilities of Islamic financial institutions, creating novel products, enlightening the public, and advocating for supportive laws and policies. There is still a dearth of information regarding the kinds and quantities of investments in development capital and infrastructure financing undertaken by organizations adhering to Islamic finance principles in DFID/CDC/PIDG regions (Sidlo, 2017). Through the application of business ethics, a businessman can have an understanding of the fierce rivalry in the industry as well as learn how to be courteous, communicate nicely to clients, preserve manners, and dress modestly (Roni & Putro, 2020).

A substantial portion of the transformation of conventional banks into completely Islamic banks is attributed to local governments. The anticipated result is that shareholders and local governments collaborate effectively to support the transformation required to realize Regional Mandani through the people's economy (Rizal et al., 2023). The NPF ratio is largely impacted by the inflation variable. The NPF ratio is also significantly impacted by the variables of total assets and gross domestic product (Damanhur et al., 2018). Islamic Financial Institutions (IFI) and the Shariah Governance Framework (SGF). The conversation emphasizes how SGF is a particular facet of the Islamic Financial Industry (IFI), which fosters shareholder and stakeholder trust in Islamic finance by embodying the validity of instruments (Wani & Dar, 2022). In order to considerably reduce poverty levels and reduce job and financial disparity, sharia financing is essential. On the other hand, there appears to be no discernible effect of Sharia financing on financial inequality or employment opportunity gaps, and only nominal Sharia financing appears to reduce poverty (Zuhroh & Malik, 2023). Islamic financial organizations follow the tenet of balancing social and corporate endeavors (tawazun). The potential of Islamic financial institutions hasn't been fully realized, though. The agriculture sector's reliance on nature and the role of Islamic financial institutions as trustees are the causes of this. The availability of financial contracts like murabahah, musawamah, salam, muzara'ah, and tawaruq is what gives Islamic financial institutions their potential (Nurlaeli et al., 2021).

Studies on the topic of economic resilience bolstered by a Sharia-compliant financial system have been conducted, particularly in the wake of the global financial crisis. In Indonesia, employment and economic growth are significantly influenced by micro and small businesses (Fikrotus Salma et al., 2024). Islamic banks are more robust than conventional banks, according to earlier studies (Hidayah et al., 2021). The influence of Sharia compliance on the operations of non-financial enterprises has not been investigated, despite the growing popularity of Islamic financing. Sharia compliance standards offer a special setting for evaluating an organization's performance in constrained circumstances. With more insights into the nuances of Sharia compliance, this is highly valuable for businesses hoping to reach the 1.8 billion Muslim market (Cheong, 2021). The government's development of Islamic economics bolsters MSMEs' contribution to economic growth, making them a key component of Indonesia's economic development (Menne et al., 2023). Compared to generations Y and Z, generation X is more financially knowledgeable when it comes to Sharia fintech, so they can spread the word and enhance the services and infrastructure of the industry in their goods (Fauzia, 2020).

Profitability decreased during the pandemic, while financial performance—as measured by the capital adequacy ratio, non-performing loans, and financing-to-deposit ratio—rose. In the meantime, there was a surge in Sharia performance, which embodies societal values and Sharia principles. Comparing the performances before and during the pandemic revealed no discernible differences. As a result, Islamic banks were resilient throughout the crisis, especially after the Covid-19 incident (Hanafi et al., 2022). With more suppliers and customers, the Indonesian Sharia Securities Crowdfunding (SCF) market is expanding quickly (Noor, 2022). The public's desire in using mortgages is positively impacted by the BTN Syariah credit system and can be simultaneously influenced by income considerations (Lestari, 2022). Sharia law is increasingly being applied to many facets of life, including finances, especially investing. Indonesia is a prime market for Islamic finance, as it is the world's largest country with a majority of Muslims. In actuality, though, Islamic finance's market share in 2018 was a mere 5%. When making financial investments, Muslim investors must follow moral guidelines that are consistent with Islamic precepts, such as the proscription against riba (interest), maysir (gambling), and gharar (uncertainty) (Amelia & Wibowo, 2020).

The public's interest in using Islamic bank financing products is positively and significantly influenced by behavioral control variables and knowledge. Subjective norms have a negative but not significant influence, knowledge has a positive and substantial impact, and characteristics related to attitude and religiosity have a positive but not significant impact. Religiosity, on the other hand, adversely affects the finance options that Islamic banks offer. Financing decisions are positively and significantly impacted by elements related to the public interest. However, the impact of knowledge and religion on financing decisions cannot be substantially mitigated by the indirect effect of public interest variables (Syahriyatul Muharromah et al., 2021). Islamic banks' social, moral, and religious integrity has not been upheld under sharia governance. Interest and the time worth of money are the foundations of consumer transactions, personal financial operations, and deposit taking in Islamic banks—clearly transgressing Sharia. The Muslim community and most business associations are becoming more and more alarmed about fundamental problems with Sharia compliance and governance in Islamic banks. Islamic banks are under increasing pressure to demonstrate that they are valuable, Sharia-compliant businesses in addition to being financially stable (Khan, 2019).

Proper distribution of Sharia financing among different industries and regions could promote balanced regional development. The advantages of commerce and specialization have long been explained by the idea of comparative advantage. Within the framework of this research, the phrase denotes the comparative effectiveness of various industries in applying Sharia finance to attain long-term expansion. Policymakers and financial institutions can better allocate resources to enhance regional development and economic resilience by identifying industries with comparative advantages. The government of Indonesia promotes the transformation of traditional regional development banks into Sharia-compliant regional development banks. These banks are anticipated to play a key role in advancing the Sharia ecosystem in the area, particularly by fostering the growth of the region's economic potential and building a successful and peaceful nation (Hidayati & Cahyaningtyas, 2024).

It offers several fascinating insights into Indonesia's Islamic banking sector, especially in relation to Sharia Business Units (UUS), and makes recommendations for potential policy changes. There is still opportunity for all banks, particularly the biggest ones, to increase their scale and profitability beyond what they currently do by improving their operational and resource allocation efficiency and raising the quality of their products to match those of other banks in the same area (Jusni et al., 2019). Project finance plans that comply with Sharia law can be used to create infrastructure. Additional benefits of sharia-compliant funding include its ability to endure global economic downturns because it forbids the use of money that makes itself (riba), charges interest on loans, and engages in speculation (gharar, or uncertainty). Islamic finance has a lot of room to grow as well. Sharia-compliant finance is believed to enable more sustained and greater infrastructure development in rural regions (Rarasati & Bahwal, 2019).

2 Method

This study uses a mixed-methods approach, combining quantitative modeling with qualitative analysis. The quantitative component involves the use of econometric models to analyze the allocation of Sharia financing across various sectors and regions. Location Quotient (LQ), Localization Index (LI), and Specialization Index (SI) are calculated to identify sectors with the highest potential for Sharia financing and to assess the distribution of financing across regions. The qualitative analysis involves interviews with stakeholders, including financial institutions, policymakers, and business leaders, to gain insights into the challenges and opportunities related to the expansion of Sharia financing.
The following analytical tools are crucial in assessing the viability and potential for Sharia financing:

(1) Location Quotient (LQ): This metric gauges the concentration of specific sectors relative to the overall regional economic activity, indicating potential areas for investment.
(2) Localization Index (LI): This assesses how rapidly an activity is developing regionally, helping to identify trending sectors worthy of investment.
(3) Specialization Index (SI): This tool evaluates the uniqueness and distribution of activities within various regions, revealing where particular industries might flourish under supportive financial conditions.

The data for this research is primarily sourced from the 2023 Sharia Banking Statistics Report. Based on this data, a comparative advantage analysis of Sharia financing is conducted using three centrality measures: LQ, LI, and SI. These calculations facilitate comparisons of data across locations and over time.

$$LQ_{ij} = (X_{ij}/X_{i.})/(X_{.j}/X_{..}) \qquad (1)$$

Where:
X_{ij} : degree of activity-j in region-i
$X_{i.}$: total activity in region-i

X.J : total activity-j across all regions
X.. : degree of activity across regions

With the interpretation:
(1) If LQij > 1, it indicates a concentration of activity-j in sub-region iii relative to the total region (there is a concentration in sub-region-i)
(2) If LQij = 1, sub-region-i has an activity share equal to the total share (the concentration of activity in sub-region-i is the same as the regional average).
(3) If LQij < 1, sub-region-i has a relatively small share compared to the activity generally found across all regions..

LIj = ½ ∑|(Xij/X.j)-(Xi./X..)|……………………..………………..(2)

Where:
Xij : degree of activity-j in region-i
Xi. : total activity in region-i
X.J : total activity-j across all regions
X.. : degree of activity across regions

With the interpretation:
(1) If LIij approaches 0, the development of an activity tends to have the same rate as the development of the region within a broader scope (the likelihood of development is relatively equal across all locations).
(2) If LIij approaches 1, The observed activity tends to develop concentrated in a specific location.

The Specialization Index is an index that describes the regional distribution based on existing activities. Certain locations become centers for the activities carried out. This SI equation can be considered as part of the LQ equation.

$SI_i = ½ ∑|(X_{ij}/X_{i.})-(X_{.j}/X_{..})|$……………………………….(3)

Where:
X_{ij} : degree of activity-j in region-i
$X_{i.}$: total activity in region-i
$X_{.J}$: total activity-j across all regions
X.. : degree of activity across regions

With the interpretation:
(1) If SI approaches 0, It means there is no distinctiveness, indicating that the observed sub-region does not have any unique activity that stands out in its development compared to other sub-regions.

(2) If SI approcahes 1, It means there is distinctiveness, where the observed sub-region has a unique activity that stands out in its development compared to other sub-regions.

It begins with the preparation of the data to be analyzed, specifically the Sharia Banking Statistics data. The values of X.i, Xj., and X. are then calculated, followed by the computation of LQ, LI, and SI values. After obtaining the three resulting tables, an analysis is conducted to determine which sectors have the potential for concentrated activities, which sectors have the potential to be developed in a particular area, and which sectors are the dominant base sectors. The method used is illustrated in the following flowchart:

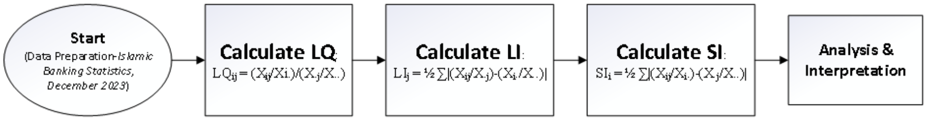

Fig. 1. Flowchart of Regional Comparative Advantage Analysis

3 Result & Discussion

The findings carry substantial implications for multiple stakeholders, including policymakers and financial institutions. Identifying sectors with high growth potential allows for more strategic allocation of Sharia financing. This alignment not only aids sustainable development but also fosters innovation and engagement among businesses striving for ethical growth models.

Ethical Investing: The fundamental tenet of Sharia financing is its commitment to ethical investing. The practice prohibits usury (riba) while promoting transparency and social accountability. This framework reduces speculative elements present in conventional finance, thus focusing on long-term wealth creation and risk-sharing.

Balance Principle: The balance (tawazun) principle stands as a cornerstone in Sharia financing, advocating for a harmonious relationship between economic activities and social well-being. It seeks to ensure that financial endeavors contribute positively to society rather than detract from it.

Key Instruments: Instruments such as mudharabah (profit-sharing), musyarakah (joint venture), ijarah (leasing), and murabahah (cost-plus financing) reflect these core principles. Each of these instruments emphasizes fairness and seeks to enhance societal benefit, making them suitable for supporting sustainable business initiatives

The Sharia financing data is compiled from the December 2023 Islamic Banking Statistics Report. Various business sectors receiving financing include Agriculture, Hunting, and Forestry; Fisheries; Mining and Quarrying; Processing Industry; Electricity, Gas, and Water; Construction; Accommodation and Food Service; Wholesale and Retail Trade; Transportation, Warehousing, and Communications; Financial Intermediaries; Real Estate, Rental Business, and Corporate Services; Educational Services; Health Services and Social Activities; as well as Community, Socio-Cultural, Entertainment, and other Personal Services.

Table 1. Sharia Financing based on business sector by province

Location (Province)	Business Sector (Rp. Million)															
	Agriculture, unting and Forestry	Fishery	Mining d Quarrying	Processing industry	Electricity, gas and water	Construction	Provision of accommodation and provision of food and drinking	Wholesale and Retail Trade	Transportation, warehousing and communica-	Financial Intermediaries	Real Estate, Rental Business, and Corporate Services	Educational Services	Health Services and Social Activities	Community, Socio-Cultural, Entertainment and other Personal Ser-	Personal Services Serving Households	TOTAL
Jawa Barat	660	74	187	2,389	124	3,996	4,859	412	1,483	924	629	1,512	1,660	556	108	59,031
Banten	16	12	5	342	48	405	1,042	182	285	267	232	391	341	214	33	19,908
Jakarta	11,187	186	7,082	21,374	12,586	29,056	21,150	2,308	20,779	17,665	11,883	2,471	2,259	531	141	226,233
Yogyakarta	82	15	-	188	-	184	559	203	30	62	92	715	344	83	19	5,845
Jawa Tengah	537	63	2	2,809	24	923	3,735	417	516	829	442	1,133	1,710	286	128	26,501
Jawa Timur	936	170	7	3,608	281	1,414	5,219	471	483	507	574	1,484	1,248	484	149	37,640
Bengkulu	291	5	1	26	-	22	234	34	15	1	27	18	22	59	2	2,485
Jambi	450	9	5	151	1	276	390	65	33	20	75	46	50	82	1	5,230
Aceh	2,322	302	48	1,301	124	616	5,591	438	265	22	232	67	305	766	44	38,567
Sumut	889	40	6	1,258	2	1,229	1,811	124	168	62	121	192	603	160	75	17,778
Sumbar	478	27	1	266	4	145	1,168	117	80	3	47	200	122	126	20	8,386
Riau	3,494	25	4	156	27	755	757	365	29	105	115	96	277	149	1	23,363
Sumsel	1,186	35	1	393	105	366	1,473	293	186	89	475	201	149	195	20	13,161
Babel	333	4	-	3	-	47	23	5	2	9	3	15	115	8	-	1,367
Kep. Riau	102	64	10	340	292	195	441	143	62	6	50	176	83	123	4	9,851
Lampung	271	46	5	142	43	12	1,089	67	43	10	52	146	301	115	30	5,365
Kalsel	683	29	248	90	14	172	798	49	496	212	237	98	13	36	25	7,393
Kalbar	3,080	14	4	18	-	23	172	38	116	403	16	19	15	59	-	8,679
Kaltim	934	12	216	77	5	746	456	87	446	-	111	185	80	81	2	8,613
Kalteng	300	4	-	9	-	3	115	30	5	21	3	20	2	37	3	1,633
Sulteng	3	9	7	12	-	10	117	18	1	-	13	22	4	20	2	2,613
Sulsel	26	35	2	272	8	239	1,295	65	126	61	173	361	123	114	20	11,757
Sulut	5	11	-	7	-	2	32	16	2	-	6	4	14	12	-	1,294
Gorontalo	-	-	-	17	-	3	13	-	-	-	-	42	1	3	-	606
Sulbar	-	2	-	2	-	9	18	1	-	-	-	7	1	6	-	850
Sultra	5	6	31	28	-	103	111	22	2	-	17	16	8	29	-	2,629
NTB	170	27	4	166	2	520	820	81	33	36	34	73	88	78	3	15,267
Bali	37	14	-	77	-	3	655	26	3	2	11	78	84	17	23	2,670

Location (Province)	Business Sector (Rp. Million)															
	Agriculture, unting and Forestry	Fishery	Mining d Quarrying	Processing in-dustry	Electricity, gas and water	Construction	Provision of accommodation and provision of food and drinking	Wholesale and Retail Trade	Transporta-tion, warehousing and communica-	Financial In-termediaries	Real Estate, Rental Business, and Corporate Ser-vices	Educational Services	Health Ser-vices and Social Activities	Community, Socio-Cultural, En-tertainment and other Personal Ser-	Personal Ser-vices Serving Households	TOTAL
NTT	2		-		-	-	26	1	-	-	-	13	-	1	1	317
		1		8												
Maluku	-	-	-		-	-	10	2	-	-	1	3	-	2	-	489
				1												
Papua		-	-	-	-		31	2	-	-	3	2	-	1	-	659
	100					15										
Malut	2		-		-	-	55	11		-	5	3	4	17	-	1,043
		2		7					3							
Papua Barat		-	-	-	-	-	3	-	-	-	-	8	-	-	-	169
	-															
Total	28,58 1	1,2 43	7,876	3 5,537	1 3,690	4 1,489	54,2 68	6,09 3	2 5,692	21,3 16	15,6 79	9,81 7	10,0 26	4,450	854	567,392

Based on the financing data, DKI Jakarta received the largest Sharia financing, followed by West Java, Aceh, East Java, Riau, and other provinces.

In the Education sector, there is a concentration of Sharia financing in 14 provinces. Similarly, the agriculture, hunting, and forestry sectors receive Sharia financing that is relatively balanced with the education sector. However, for the health services and social activities sectors, there is a concentration of Sharia financing in the provinces of Bangka-Belitung, Central Java, Yogyakarta, Lampung, North Sumatra, East Java, Bali, and West Java. In the real estate, rental business, and corporate services sectors, Sharia financing is concentrated in only three provinces: Jakarta, South Sumatra, and South Kalimantan. In the transportation, warehousing, and communication sectors, Sharia financing is focused in DKI Jakarta, South Kalimantan, and East Kalimantan (Table 2).

Table 2. LQ Analysis 5 Sektor

No.	Province	LQ	No.	Province	LQ
	Educational Services			*Agriculture, Hunting and Forestry*	
1	Yogyakarta	7.07	1	Kalimantan Barat	7.05
2	Gorontalo	4.01	2	Bangka Belitung	4.84
3	Papua Barat	2.74	3	Kalimantan Tengah	3.65
4	Jawa Tengah	2.47	4	Papua	3.01
5	Nusa Tenggara	2.37	5	Riau	2.97
6	Jawa Timur	2.28	6	Bengkulu	2.32
7	Sulawesi Selatan	1.77	7	Kalimantan Timur	2.15
8	Bali	1.69	8	Kalimantan Selatan	1.83
9	Lampung	1.57	9	Sumatera Selatan	1.79

No.	Province	LQ	No.	Province	LQ
10	Jawa Barat	1.48	10	Jambi	1.71
11	Sumatera Barat	1.38	11	Aceh	1.20
12	Kalimantan Timur	1.24	12	Sumatera Barat	1.13
13	Banten	1.14	13	Lampung	1.00
14	Kepulauan Riau	1.03			
	Real Estate, Rental Business, and Corporate Services			*Health Services and Social Activities*	
1	DKI Jakarta	1.90	1	Bangka Belitung	4.76
2	Sumatera Selat	1.31	2	Jawa Tengah	3.65
3	Kalimantan Sela	1.16	3	D.I Yogyakarta	3.33
	Transportation, warehousing and communications		4	Lampung	3.18
1	DKI Jakarta	2.03	5	Sumatera Utara	1.92
2	Kalimantan Sela	1.48	6	Jawa Timur	1.88
3	Kalimantan Tim	1.14	7	Bali	1.78
			8	Jawa Barat	1.59

The top three provinces for the educational services sector where Islamic banking finance is available are D.I. Yogyakarta, Gorontalo, and Papua Barat. Islamic banking's focus on financing the educational services sector extends beyond Java island and aligns with the government's agenda to promote an equal distribution of education programs. This alignment reassures us that Islamic banking significantly contributes to national development, as outlined in the SDGs or Sustainable Development Levels (Tujuan Pembangunan Berkelanjutan/TPB).

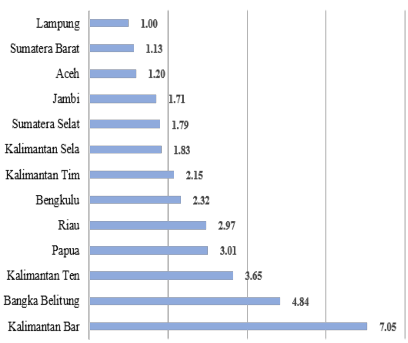

Fig. 2. LQ For Agriculture Hunting and Forestry

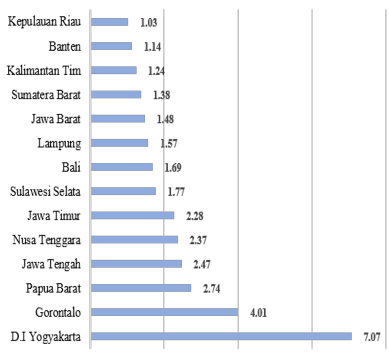

Fig. 3. Educational Services

West Kalimantan, Bangka Belitung, and Middle Kalimantan are the provinces receiving the most Islamic finance from Islamic banking in 2023 for **agriculture, hunting, and forestry.** This is understandable as Kalimantan Island's forest area is enormous — around 40.8 million hectares—making it one of the world's lungs. Besides, Bangka Belitung has a high potential for investment in this sector.

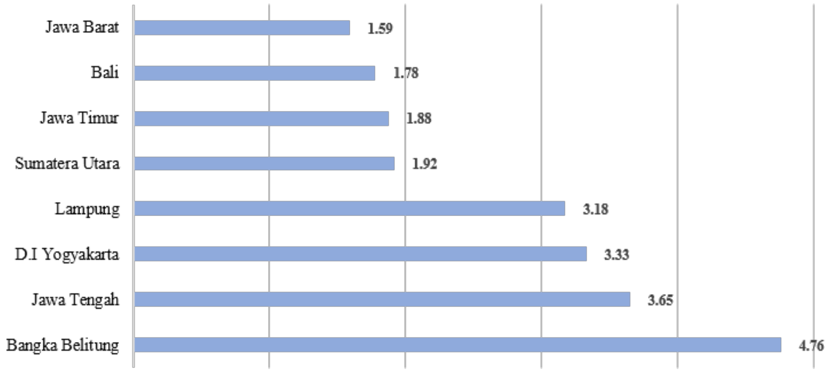

Fig. 4. LQ for Health Sevices and Social Activities

Bangka Belitung, Middle Java, and D.I. Yogyakarta are the top three provinces financed by Islamic banking for their health services and social activities. Health services and social activities have become significant development priorities for the three provinces; hence, investment through Islamic financing in this sector is understandable.

Table 3. LQ for Fishery, Construction, Electricity, gas and water, and Other Services

No.	Province	LQ	No	Province	LQ
	Fishery			*Community, Socio-Cultural, Entertainment and other Personal Services*	
1	Lampung	3.91	1	Bengkulu	3.03
2	Sulawesi Utara	3.88	2	Kalimantan Tengah	2.89
3	Aceh	3.57	3	Lampung	2.73
4	Kepulauan Riau	2.97	4	Aceh	2.53
5	Bali	2.39	5	Maluku Utara	2.08
6	Jawa Timur	2.06	6	Jambi	2.00
7	Kalimantan Selatan	1.79	7	Sumatera Barat	1.92

No.	Province	LQ	No	Province	LQ
8	Sulawesi Tengah	1.57	8	Sumatera Selatan	1.89
9	Sumatera Barat	1.47	9	D.I Yogyakarta	1.81
10	Nusa Tenggara	1.44	10	Jawa Timur	1.64
11	Sulawesi Selatan	1.36	11	Kepulauan Riau	1.59
12	Bangka Belitung	1.34	12	Sulawesi Tenggara	1.41
13	Sumatera Selat	1.21	13	Jawa Tengah	1.38
14	D.I Yogyakarta	1.17	14	Banten	1.37
15	Kalimantan Ten	1.12	15	Sulawesi Selatan	1.24
16	Jawa Tengah	1.09	16	Jawa Barat	1.20
17	Sulawesi Barat	1.07	17	Kalimantan Tim	1.20
18	Sulawesi Tengg	1.04	18	Sulawesi Utara	1.18
19	Sumatera Utara	1.03	19	Sumatera Utara	1.15
	Construction			*Electricity, gas and water*	
1	DKI Jakarta	1.76	1	DKI Jakarta	2.31
2	Kalimantan Tim	1.18	2	Kepulauan Riau	

Lampung, Sulawesi Utara, and Nanggroe Aceh Darussalam are the top three provinces that received the highest portion of Islamic finance in 2023 for the fishery sector. This is understandable, as the fishery sector in these three provinces is included as one of the leading sectors that significantly contribute to their regional economic growth. This finding aligns with a study by Arrazy and Primadini (2021). Bengkulu, Middle Kalimantan, and Lampung are the top three provinces that received the highest Islamic financing scheme for the **community, Socio-Cultural, Entertainment, and other Personal Services sector.**

Table 4. LQ Analysis 6 Sektor

No.	Province	LQ	No.	Province	LQ
	Personal Services Serving Households			*Provision of accommodation and provision of food and drinking water*	
1	Bali	5.72	1	Bali	2.56
2	Lampung	3.72	2	Lampung	2.12

3	Jawa Tengah	3.21	3	Aceh	1.52
4	Sumatera Utara	2.80	4	Jawa Tengah	1.47
5	Jawa Timur	2.63	5	Sumatera Barat	1.46
6	Kalimantan Sela	2.25	6	Jawa Timur	1.45
7	D.I Yogyakarta	2.16	7	Sumatera Selat	1.17
8	Nusa Tenggara	2.10	8	Sulawesi Selatan	1.15
9	Sumatera Barat	1.58	9	Kalimantan Sela	1.13
10	Kalimantan Ten	1.22	10	Sumatera Utara	1.07
11	Jawa Barat	1.22	11	D.I Yogyakarta	1.00
12	Sulawesi Selatan	1.13		*Wholesale and Retail Trade*	
13	Banten	1.10	1	D.I Yogyakarta	3.23
14	Sumatera Selat	1.01	2	Sumatera Selat	2.07
	Financial Intermediaries		3	Kalimantan Ten	1.71
1	DKI Jakarta	2.08	4	Jawa Tengah	1.47
2	Kalimantan Bar	1.24	5	Riau	1.45
	Mining and Quarrying		6	Kepulauan Riau	1.35
1	Kalimantan Sela	2.42	7	Sumatera Barat	1.30
2	DKI Jakarta	2.26	8	Bengkulu	1.27
3	Kalimantan Tim	1.81	9	Jawa Timur	1.17
	Processing industry		10	Lampung	1.16
1	Jawa Tengah	1.69	11	Jambi	1.16
2	Jawa Timur	1.53	12	Sulawesi Utara	1.15
3	DKI Jakarta	1.51	13	Aceh	1.06
4	Sumatera Utara	1.13			

Bali, Lampung, and Aceh received the highest portion of the Islamic financing scheme in 2023 for providing accommodation, food, and drinking water. This might be due to the high potential development of this sector in these three provinces, so Islamic banking comes into the picture.

DI Yogyakarta, South Sumatera, and Middle Kalimantan are the top three provinces that received the highest portion of Islamic financing scheme from the Islamic banking for the **Wholesale and Retail Trade sector.** Meanwhile, for the personal services serving households sectors, it appears that Bali, Lampung, and Middle Java has the most Islamic financing scheme in 2023.

Table 5. LI Analysis 15 sector

No.	Business Sector	LI (j)
1	Agriculture, Hunting and Forestry	0.27
2	Fishery	0.36
3	Mining and Quarrying	0.52
4	Processing industry	0.27
5	Electricity, gas, and water	0.52
6	Construction	0.30
7	Provision of accommodation and provision of food and drinking water	0.12
8	Wholesale and Retail Trade	0.12
9	Transportation, warehousing, and communications	0.42
10	Financial Intermediaries	0.42
11	Real Estate, Rental Business, and Corporate Services	0.37
12	Educational Services	0.31
13	Health Services and Social Activities	0.33
14	Community, Socio-Cultural, Entertainment and other Personal Services	0.31
15	Personal Services Serving Households	

Based on Locational Index Analysis, four sectors tend to develop specific locations: Mining and Quarrying (0.52), electricity and gas (0.52), Transportation, warehousing and communications (0.42), and Financial Intermediaries (0.42). This can be accepted as these four sectors have specific conditions and environments to execute.

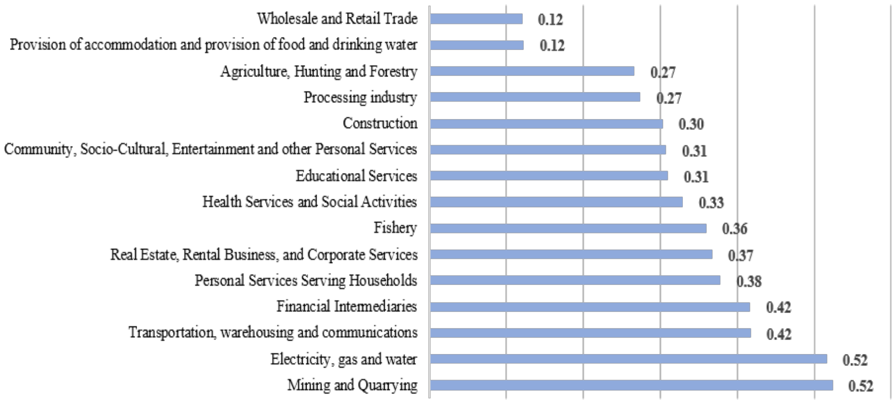

Fig. 5. Analysis of Locational Index

On the other hand, the Wholesale and Retail Trade (0.12) and Provision of accommodation, food, and drinking water (0.12) sectors tend to have the same rate as the region's development within a broader scope, providing a reliable and predictable likelihood of development across all locations.

Table 6. SI Analysis 15 sektor

No.	Location (Province)	SI (i)
1	Jawa Barat	0.10
2	Banten	0.15
3	DKI Jakarta	0.14
4	D.I Yogyakarta	0.20
5	Jawa Tengah	0.16
6	Jawa Timur	0.14
7	Bengkulu	0.18
8	Jambi	0.13
9	Aceh	0.16
10	Sumatera Utara	0.09
11	Sumatera Barat	0.15
12	Riau	0.21
13	Sumatera Selatan	0.13
14	Bangka Belitung	0.28
15	Kepulauan Riau	0.16
16	Lampung	0.20
17	Kalimantan Selatan	0.13
18	Kalimantan Barat	0.33
19	Kalimantan Timur	0.12
20	Kalimantan Tengan	0.22
21	Sulawesi Tengah	0.17
22	Sulawesi Selatan	0.15
23	Sulawesi Utara	0.17

No.	Location (Province)	SI (i)
24	Gorontalo	0.13
25	Sulawesi Barat	0.18
26	Sulawesi Tengg	0.16
27	Nusa Tenggara	0.17
28	Bali	0.24
29	Nusa Tenggara	0.09
30	Maluku	0.18
31	Papua	0.17
32	Maluku Utara	0.12
33	Papua Barat	0.10

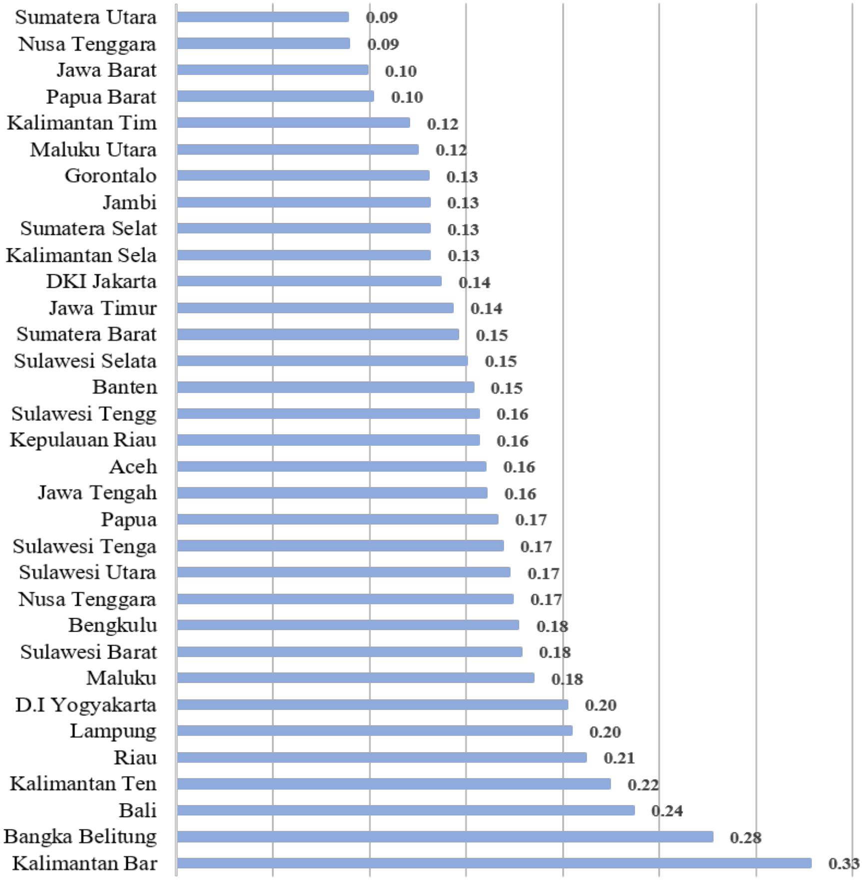

Fig. 6. Analisys of Specialization Index by Province

The quantitative analysis results indicate significant variation in the allocation of Islamic financing across different regions and sectors. The Agriculture, Hunting, and Forestry sector in West Kalimantan Province emerges as the most promising area for Islamic financing, followed by sectors in Bangka Belitung, Central Kalimantan, Papua, Riau, Bengkulu, and East Kalimantan. The Localization Index (LI) suggests that all sectors have relatively balanced development opportunities, particularly in the Mining and Quarrying, Electricity, Gas, and Water sectors. However, the Specialization Index (SI) indicates that no single sector dominates across all provinces, highlighting the need for a region-specific financing approach.

The insights gained from this research have significant implications for policymakers, financial institutions, and businesses. Policymakers should consider creating a regulatory framework that supports the growth of Islamic finance in key sectors. Financial institutions can use these findings to identify sectors and regions with high investment potential, while businesses can explore opportunities to integrate Sharia principles into their operations, thereby enhancing their sustainability and ethical image. The findings carry substantial implications for multiple stakeholders, including policymakers and financial institutions. Identifying sectors with high growth potential allows for more strategic allocation of Sharia financing. This alignment not only aids sustainable development but also fosters innovation and engagement among businesses striving for ethical growth models.

The findings of this study underscore the importance of strategic allocation of Islamic financing to maximize its impact on sustainable development. The concentration of financing in certain sectors indicates that specific industries are better positioned to leverage Sharia principles for long-term growth. The relatively even development opportunities across various sectors, as indicated by the Localization Index (LI), suggest a potential for broader application of Islamic financing within Indonesia's economy. The absence of a dominant sector, as revealed by the Specialization Index (SI), highlights the need for diverse approaches in regional development, with tailored financing strategies for each province. The insights gained from this study have significant implications for policymakers, financial institutions, and businesses. Policymakers should consider creating a regulatory framework that supports the growth of Islamic financing in key sectors. Financial institutions can use these findings to identify high-potential sectors and regions for investment, while businesses can explore opportunities to integrate Sharia principles into their operations, thereby enhancing their sustainability and ethical image.

4 Conclusion

Several conclusions as below:

(1) Enhancing the strategic allocation of Sharia financing is paramount for achieving sustainable development goals in Indonesia.

(2) Policymakers must establish supportive regulatory frameworks to encourage this financing model, while financial institutions should direct efforts toward high-potential sectors.
(3) Furthermore, businesses would benefit from integrating Sharia principles to bolster sustainability and ethical practices.
(4) This collaborative approach can significantly advance the Indonesian economy toward a more sustainable and equitable future.

Suggestion to the stakeholders. Enhancing the strategic allocation of Sharia financing is paramount for achieving sustainable development goals in Indonesia. Policymakers must establish supportive regulatory frameworks to encourage this financing model, while financial institutions should direct efforts toward high-potential sectors. Furthermore, businesses would benefit from integrating Sharia principles to bolster sustainability and ethical practices. This collaborative approach can significantly advance the Indonesian economy toward a more sustainable and equitable future

Acknowledgments. Thank you for data support from BPS, which has released the Islamic Banking Statistics (2023), as the analysis in this research has utilized that data.

References

1. Adilla, M. S. (2023). Solusi Islam dalam Pengentasan Kemiskinan menurut Yusuf Qardhawi. El-Mujtama: Jurnal Pengabdian Masyarakat, 4(2), 1180–1190. https://doi.org/10.47467/elmujtama.v4i2.4991
2. Alam, A., Rusgianto, S., Indira HASMARINI, M., & Muhammad FARHAN, A. (2022). The Determinant of Shariah Financing in the Agricultural Sector: Evidence from Indonesia. Journal of Asian Finance, 9(4), 287–0298. https://doi.org/10.13106/jafeb.2022.vol9.no4.0287
3. Amelia, R., & Wibowo, D. (2020). Analysis of Public Interest in Sharia Investing Through Financial Technology Companies. 151(Icmae), 388–392. https://doi.org/10.2991/aebmr.k.200915.089
4. Cheong, C. W. H. (2021). Risk, resilience, and Shariah-compliance. Research in International Business and Finance, 55(August). https://doi.org/10.1016/j.ribaf.2020.101313
5. Damanhur, Albra, W., Syamni, G., & Habibie, M. (2018). What is the determinant of non-performing financing in branch Sharia regional bank in Indonesia. Emerald Reach Proceedings Series, 1, 265–271. https://doi.org/10.1108/978-1-78756-793-1-00081
6. Fakhrunnas, F., Astuti, R. D., & Anto, M. B. H. (2022). Determinants of nonperforming financing in Indonesian Islamic banks: A regional and sectoral analysis. Banks and Bank Systems, 17(4), 72–86. https://doi.org/10.21511/bbs.17(4).2022.07

7. Fauzia, I. Y. (2020). Enhancing the Literacy of Shariah Financial Technology for Generation X, Y and Z in Indonesia. Jurnal Minds: Manajemen Ide Dan Inspirasi, 7(2), 65. https://doi.org/10.24252/minds.v7i2.15871
8. Fikrotus Salma, D., Nuryartono, N., & Purwanto, B. (2024). Sharia Financial Inclusion to Build Economic Resilience of Micro Small Enterprises During COVID-19. Jurnal Manajemen Dan Organisasi, 14(4), 430–439. https://doi.org/10.29244/jmo.v14i4.47631
9. Hanafi, R., Rohman, A., & Sutapa, S. (2022). Islamic Bank Resilience: Financial and Sharia Performance During Covid-19 Pandemic in Indonesia. Muqtasid: Jurnal Ekonomi Dan Perbankan Syariah, 13(1), 18–30. https://doi.org/10.18326/muqtasid.v13i1.18-30
10. Hidayah, N., Zamilah, A., Rizal, S., & Jaharuddin, J. (2021). The Resilience of Sharia and Conventional Banks in Indonesia during the Covid-19 Pandemic Crisis. Al-Iqtishad: Jurnal Ilmu Ekonomi Syariah, 13(2), 209–228. https://doi.org/10.15408/aiq.v13i2.23964
11. Hidayati, L. A., & Cahyaningtyas, S. R. (2024). Comparative Analysis of the Financial Performance of Regional Development Banks before and after Conversion to Islamic Banks. Oblik i Finansi, 1(1(103)), 147–156. https://doi.org/10.33146/2307-9878-2024-1(103)-147-156
12. Jusni, Possumah, B. T., Aswan, A., & Syamsuddin, A. R. (2019). Financing profitability optimization: Case study on sharia business unit of regional development banks in Indonesia. Banks and Bank Systems, 14(1), 1–10. https://doi.org/10.21511/bbs.14(1).2019.01
13. Khan, M. M. (2019). Islamic Banking and Finance: Shariah Governance in Theory and Practice. Journal of Management Research, 11(2), 1. https://doi.org/10.5296/jmr.v11i2.14141
14. Lestari, D. S. (2022). the Impact of Sharia Btn Credit and Income Factors on Public Interest in Home Ownership Loans (Kpr). Syari'ah Economics, 6(1), 65. https://doi.org/10.36667/se.v6i1.1168
15. Menne, F., Mardjuni, S., Yusuf, M., Ruslan, M., Arifuddin, A., & Iskandar, I. (2023). Sharia Economy, Islamic Financial Performance and Factors That Influence It—Evidence from Indonesia. Economies, 11(4). https://doi.org/10.3390/economies11040111
16. Noor, A. (2022). the Legal Regulatory Framework of Sharia Securities Crowdfunding in Indonesia. Masalah-Masalah Hukum, 51(4), 433–444. https://doi.org/10.14710/mmh.51.4.2022.433-444
17. Nurlaeli, F., Mubtadi, N. A., & Abdilah, A. I. (2021). Analisis Peran Pembiayaan Lembaga Keuangan Syariah pada Sektor Pertanian di Kabupaten Brebes. Velocity: Journal of Sharia Finance and Banking, 1(2), 36–47. https://doi.org/10.28918/velocity.v1i2.4295

18. Rarasati, A. D., & Bahwal, F. F. (2019). Sharia-compliant Financing of Infrastructure Development in Rural Area. IOP Conference Series: Earth and Environmental Science, 258(1). https://doi.org/10.1088/1755-1315/258/1/012014
19. Rizal, Firdaus, N., Ghofur, R. A., Noviarita, H., & Utami, P. (2023). Opportunities and Challenges of Conversion of Sharia Regional Development Banks in Economic Development Efforts and Income Distribution. Journal of Distribution Science, 21(2), 65–76. https://doi.org/10.15722/jds.21.02.202302.65
20. Roni, M., & Putro, H. K. (2020). Journal of Sharia Economics. Journal of Sharia Economics, 3(1), 18–39.
21. Sidlo, K. W. (2017). Sharia-Compliant Investments in Infrastructure and Development Capital Financing. CASE – Center for Social and Economic Research, 17.
22. Syahriyatul Muharromah, Huda, N., Muslikh, M., & Rini, N. (2021). Factors That Influence Public Interest In Choosing Islamic Bank Financing Products. Jurnal Organisasi Dan Manajemen, 17(1), 53–66. https://doi.org/10.33830/jom.v17i1.1085.2021
23. Wani, A. S., & Dar, S. H. (2022). Prospects of Sharia Governance in Islamic Finance Industry: Jurisdictions, Standards, and Implications. Talaa : Journal of Islamic Finance, 2(1), 21–32. https://doi.org/10.54045/talaa.v2i1.523
24. Yusup, M., & Nasution, D. S. (2020). Implementation of the Maqashid Syariah Index Approach on the Performance of Sharia Regional Development Banks in Indonesia. Journal of Finance and Islamic Banking, 3(1), 21–37. https://doi.org/10.22515/jfib.v3i1.1952
25. Zuhroh, I., & Malik, N. (2023). Revisiting the Role of Islamic Bank on SDGs: Sharia Financing, Inequality, and Poverty. Journal of Human, Earth, and Future, 4(4), 443–452. https://doi.org/10.28991/HEF-2023-04-04-05