DOES ISLAMIC FINANCIAL DEVELOPMENT MATTER TO IMPROVE STANDARD LIVABILITY? EVIDENCE FROM INDONESIA

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Abstrak

Penelitian ini bertujuan untuk menguji dan menganalisis hubungan antara perkembangan keuangan syariah dan standar kelayakan hidup di Indonesia dalam perspektif Islam. Hal ini dianggap krusial bagi Indonesia untuk mengimbangi ekspansi ekonomi yang tinggi dengan standar kelayakan hidup yang mumpuni. Penelitian ini merupakan penelitian kuantitatif dengan metode regresi data panel, menggunakan data panel berupa penyaluran pembiayaan syariah dan pengeluaran riil per kapita di 33 provinsi di Indonesia sejak tahun 2017 hingga 2022. Hasil penelitian menunjukkan bahwa perkembangan keuangan syariah secara signifikan berpengaruh terhadap peningkatan standar hidup layak. Lebih lanjut, temuan ini akan membantu untuk memahami peran keterlibatan keuangan dalam pembangunan berkelanjutan untuk diskusi kebijakan keuangan dan distribusi untuk kelompok masyarakat berpenghasilan rendah.

Kata Kunci: *perkembangan keuangan syariah, standar kelayakan hidup, SDGs*

Abstract

This research aims to examine and analyze the relationship between Islamic financial development and Indonesia's standard of livability from an Islamic perspective. This is considered significant because, as a developing country, it is crucial for Indonesia to sustain high economic growth along with a good standard of livability. This is a quantitative study using a panel data regression method, utilizing panel data such as Islamic financing disbursement and real expenditure per capita across 33 provinces in Indonesia from 2017 to 2022. The results revealed that Islamic financial development plays a significant role in improving the standard of livability. Moreover, these findings will help understand the role of financial inclusion in sustainable development, contributing to discussions on financial and distribution policies for lower-income groups.

Keywords: *Islamic financial development, standard of livability, SDGs*

INTRODUCTION

In the contemporary economic landscape of Indonesia, the intersection of Islamic banking and the standard of livability emerged as a pivotal focal point, representing not only an economic convergence but also a profound influence on the overall well-being of the nation. Indonesia, grappling with the challenge of being categorized among countries with comparatively lower living standards, faces a dynamic context where Islamic banking stands as a potent force for transformative change. This intersection embodies the synergy between financial principles grounded in Islamic ethics and the aspiration to elevate the quality of life for the Indonesian populace.

The standard of livability is a critical concern for emerging nations like Indonesia, attempting to keep pace with rapid economic growth (Chambers, Wu, & Yao, 2007; Azwar, Possumah, & Aqbar, 2022). Numerous studies confirm that many developing countries with significant economic expansion continually suffer with persistently low living standards for various reasons, despite economic growth (Yi, Jue, & Huan, 2021; Seven & Coskun, 2016). According to United Nations Development Program (UNDP), (2022) Report 2022, Indonesia becomes one of nations with the lowest living standard in the world reaching 0,718 compared to Malysia and Thailand, reaching at 0,81 and 0,80 respectively.

Moreover, data from the Badan Pusat Statistik (BPS) reveals a declining standard of living among Indonesians since 2020, caused by economic growth contraction (Badan Pusat Statistik, 2021). This situation is exacerbated by the ongoing issue of income inequality across various provinces, including Yogyakarta, DKI Jakarta, Gorontalo, West Java, Papua, Southeast Sulawesi, West Sulawesi, Central Java, NTB, and East Java, which have significant increase in income inequality over the past five years (2018-2022) (Badan Pusat Statistik Indonesia, 2022).

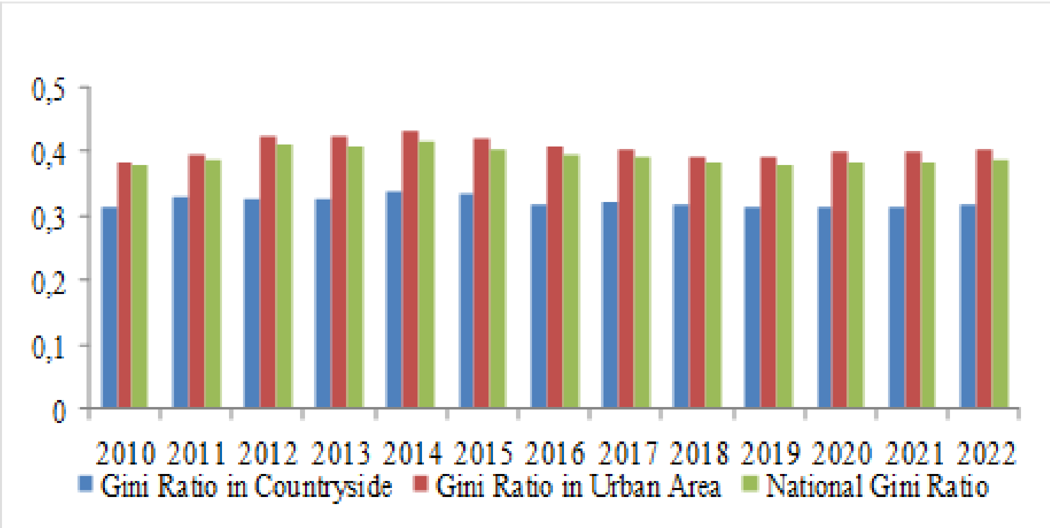

Figure 1. Indonesia Gini Index Ratio 2010-2022
Source: Badan Pusat Statistik Indonesia, 2010-2022

Recognizing the significant economic challenges Indonesia is currently facing, particularly concerning low living standards and income inequality, the government has taken various steps to address the potential negative impacts of these issues (Figure 1). A prudential financial sector growth can be one of strategies to alleviate income inequality (Kavya & Shijin, 2020; Laub, (1999) and contribute to an improved standard of (Yi et al., 2021)(Azwar et al., 2022) It is because according to the Indonesia Finance Ministry, the financial and banking sectors are pivotal drivers of economic development in the country (Kementerian Keuangan RI, 2023). Against the backdrop of a predominantly Muslim population, the role of Islamic banking takes on heightened significance, presenting a unique opportunity to not only address economic dimensions but also to contribute to the broader societal fabric.

Additionally, the Islamic financial industry in Indonesia has experienced rapid growth in recent years (Apriyanti, 2016; Halawi, 2021), evident by the increasing assets of Islamic banks, financing disbursements, and third-party funds, reaching 721 trillion, 467 trillion, and 572 trillion, respectively, by June at Kompas.com (2022). Thus, allocating financial resources to productive economic activities and users can stimulate productivity and capitalization (Ullah, Kui, Ullah, Pinglu, & Khan, 2021), thereby influencing national economic progress and reducing income inequality (Azwar et al., 2022; Farahani & Hossein, 2012), ultimately enhancing the standard of living for Indonesians. The rapid growth of the Islamic financial sector also positions the nation to be less vulnerable to the negative impacts of global economic challenges, particularly those arising from socio-economic issues such as income inequality and imbalanced living standards, prevalent in many Muslim-majority developing countries.

Previous research has explored the economic effects of financial development on income inequality and living standards across various countries (Seven & Coskun, 2016; Azwar et al., 2022; Yi et al., 2021; Zhang & Ben Naceur, 2019). Nevertheless there remains a scarcity of studies examining this relationship from an Islamic perspective. Islamic banks, as key players in the Islamic financial sector, bear a significant responsibility not only for stimulating national capitalization but also for promoting universal well-being (*falah*) guided by the principles of *maqāṣid* sharia (Yumna, 2019); (Bakar, Khilmy, Rahim, & Ismail, 2021). Consequently, active participation in achieving universal well-being can contribute to a more balanced living standard, reduce poverty rates, address economic inequality, and alleviate social tensions and crime (Al-Mubarak & Osmani, 2010). As this confluence unfolds, it prompts an exploration into how the principles and practices of Islamic banking can serve as a catalyst for fostering economic growth, financial inclusion, and ethical financial practices that, collectively, have the potential to uplift the standard of livability for the diverse communities across Indonesia.

In this regard, this research aims to establish an economic framework to enhance the standard of living for Indonesians through the development of the Islamic financial industry. Furthermore, this research picks years between 2017-2022 due to some specific phenomenon, which is before and after Covid-19 to see how the framework works. Analyzing this framework will not only deepen our understanding of the role of financial engagement in sustainable development but also provide a basis for discussing financial and distribution policies for the lower-income groups, and specifically when the nation faced such a similar phenomenon. Therefore, uncovering the causal relationship between Islamic financial development, income inequality, and living standards is crucial for informed policy decisions.

LITERATURE REVIEW

Islamic Financial Industry And Economic Growth In Indonesia

In the midst of a global economic crisis, Indonesia has emerged as a country with significant growth of Islamic financial industry. This situation occurs because according to the National Committee for Islamic Economic and Financial 2022 report, Indonesia has experiencing a tremendous growth of Muslim population, reaching approximately 241,7 million people, equivalent to 89,02% of the total population. This demographic structure leads Indonesia to be a nation which adopts a dual-banking system, which has been realizing since 1996. This transition is marked by the amendment of law Number

7/1992 became law Number 10.1998 regarding the operational activity of banking Industry.

Currently, Islamic financial industry is undergoing a transformative growth and challenge. This situation presents such opportunity for Indonesia to advance to the front of the Islamic financial and *halal* industries, potentially encompassing a global market share. Furthermore, as a-Muslim majority country, Indonesia government is actively promoting various strategy to support Indonesia to be the center of *halal* industry nation in this world.

One of industries that consistently serve as a primary driver in realizing these objectives, and boosting national economic growth in Indonesia is Islamic financial industry. Additionally, the Islamic financial industry also has the potential to contribute in promoting financial inclusion and attracting both domestic and international investors. This condition aligns with the report of National Committee for Islamic Economic and Financial, indicating that the market share of Islamic finance in Indonesia (excluding sharia-compliant stocks) has reached 11 % with total recorded assets amounting to IDR 2,451.37 trillion or approximately USD 116.18 billion. This condition signifies that the Islamic financial industry has experienced significant growth, marked by a 4.48% increase compared to the 2022 figure of IDR 2,375 trillion (Figure 2). This growth encompasses Islamic banking, Sharia-compliant capital markets, and non-bank Islamic financial institutions.

Figure 2. Finance Total Assets, 2017-2022
Source: Otoritas Jasa Keuangan, 2022

The commitment to make Indonesia as the center of the Islamic economy by 2024, was also conveyed by the President of Indonesia in December 2021. Considering that Indonesia's Islamic economy is currently ranked fourth in the world, an improvement from the ninth position in 2014. On the other hand, the State Global Islamic Economy Report 2020/2021 notes that Indonesia's indicators of the Islamic economy also continue to improve, with the country securing the fourth position globally in 2020, following Malaysia, Saudi Arabia, and the United Arab Emirates.

In addition, the State of Global Islamic Economy Report (SGIE) reported that in 2019, the global Muslim population reached approximately 1.9 billion people, with total spending on *halal* products reaching USD 2.02 trillion. This figure is projected to increase continuously with the growing Muslim population worldwide, reaching an estimated USD 2.4 trillion by 2024. This potential represents an opportunity that Indonesia should seize by assuming a role as a global producer of halal products. One concrete approach to capitalize on this potential is by enhancing the export of halal products to meet the demands of the global market.

The Nexus Of Islamic Financial Development And Standard Of Livability

Recent studies reported that inequality seems o have a significant impact on the quality of life for many individuals, leading to a decrease in living standards and overall well-being (Clark et al., 2008; Kahneman et al., 1997; Millward-Hopkins & Oswald, 2023). This effect is particularly pronounced in developing countries, where economic turmoil becomes exacerbates issues such as poverty, inequality, and degraded living standards (Millward-Hopkins & Oswald, 2023; Putra & Lisna, 2020). The discussion of inequality is often centered around income, with a common belief that individuals with higher incomes are happier due to a higher standard of living (Millward-Hopkins & Oswald, 2023). Therefore, the more inequality increase, the more standard of livability decrease. Importantly, inequality isn't solely an economic concern; it also has social and political consequences, necessitating corrective measures (Mustafa, 2019) since financial and living inequalities impact culture, thought processes, belief systems, and societies (Al-Qardhawi, 2002; Mustafa, 2019).

Furthermore, the relationship between financial development and inequality, as well as imbalanced living standards, remains a subject of debate. Some scholars argue that the growth of the financial sector primarily benefits the wealthy, given their creditworthiness to banks (Clarke, Xu & Zhou, 2007; Petrou, 2021; Trapp & Craig, 2021). In contrast, those who are socio-economically disadvantaged and lack creditworthiness may face challenges in accessing financial services due to a lack of collateral. This limited access exacerbates financial inequality and results in a lower standard of living for the less privileged, who struggle to meet essential needs such as education and healthcare, consequently becoming unskilled labor with lower wages.

As the relationship between Islamic financial development and standard of livability becomes a complex and multifaceted topic that involves economic, social, and cultural dimensions. There are various reasons why Islamic financial development can contribute to enhance standard of livability in some developing country like Indonesia. *Initially* is Ethical and Responsible Financial sector. As Islamic finance operates based on the principles of Sharia, it is crucial for Islamic financial institution to prohibit various activities such as usury (*riba*) and speculative transactions (*gharar*). It is because, this ethical foundation can contribute to a more responsible and sustainable financial system. By avoiding exploitative practices, Islamic finance may promote a fairer distribution of wealth, fostering economic stability and reducing income inequality (Can, 2021; Mollah & Zaman, 2015).

Secondly is Social Justice and Wealth Distribution. Islamic finance emphasizes the concept of Zakat, a form of almsgiving or charitable donation required of all Muslims. This practice contributes to redistributing wealth within the society, addressing poverty, and improving the overall standard of livability. The emphasis on social justice in Islamic finance may result in a financial system that is more inclusive and responsive to the needs of diverse socio-economic groups (Ubaidillah & Astuti, 2020). In addition, Islamic finance also encourages entrepreneurship through modes like *Mudarabah*, where capital is provided by one party (financier) and expertise by another (entrepreneur). This can foster economic development and job creation, thereby improving the standard of livability. Moreover, through this kind of scheme, the prohibition of interest may encourage businesses to invest in more productive and sustainable projects, rather than engaging in speculative activities (Sapuan, 2016).

Nevertheless, numerous-previous on the nexus between finance, income inequality, and the standard of living suggests that financial development plays a crucial role in fostering economic growth (Eccles, 2019; Hung & Cothren, 2022; Nguyen, Thai-Thuong Le, Ho, Nguyen, & Vo, 2022). By directing Islamic financing toward productive economic activities and users, it can stimulate capitalization, influencing national economic progress (Ibrahim & Alagidede, 2018; Asteriou & Spanos, 2019), leading to reduce income inequality then increase Indonesians standard of livability.

Surprisingly, there is a limited focus on this kind of study from an Islamic perspective. As a Muslim-majority developing country, Indonesia has a significant opportunity to further develop its Islamic financial industry, specifically Islamic banks, to drive productive business through Islamic business models like *murābaha, muḍāraba, and musyāraka*, coupled with Islamic financing models, promoting national economic growth (Azwar et al., 2022) (Saeed, Ur-Rehman, Khamid, & Nazam, 2020). The rapid development of Islamic financial can stimulate savings, lending, and financial stability through ethical financing, offering opportunities (Imam & Kpodar, 2016), given the poor the opportunity to borrow for human capital investments and upgrade their earning potentials, leading to the decreasing number of inequality. Consequently, as inequality decreases, there is a potential for a more balanced national standard of living. This aligns with the main purpose of *maqāṣid* sharia, specifically hifdz al-nafs and hifdz al-nasal, as Islamic parameters to achieve universal well-being (*falah*)(Auda, 2019: Lestari, Muslim, Furwanti, & Solikhin, 2022) through Islamic business models represented by the existence of Islamic banking as a key institution with significant responsibilities in socio-economic welfare (Lindiawati & Suryani, 2017). Therefore, based on this phenomenon, it can be hypothesized that Islamic financial development has a positive effect on the standard of living.

RESEARCH METHOD

This is quantitative research, utilizing panel data to investigate the impact of Islamic financial development on the enhancement of the national standard of livability. The dataset was picked from Badan Pusat Statistik Indonesia 2017 to 2022, encompassing data from all 33 provinces in Indonesia as a population. As this research uses a saturated sample technique, all the provinces of Indonesia are considered as the sample of this research to ensure comprehensive research.

The key matrix for measuring the growth of the Islamic financial industry in this study is the amount of Islamic banking financing, chosen as a reliable proxy. Concurrently, the standard of livability is proxied by real expenditure per capita. By adopting these proxies, the research aims to effectively capture the dynamics of Islamic financial development and its correlation with improvements in the national standard of livability.

To examine the relationships between these variables, the data is analyzed through a panel regression model. The utilization of E-views10 as a statistic tool facilitates a comprehensive the effects of these variables. Through this analytical framework, the study seeks to unveil such insights into the intricate interplay between Islamic financial development and the enhancement of the standard of livability on a national scale. Furthermore, this research picks Islamic financial development as predictor variable, comprising a financing form development to proxy it at each province of Indonesia. Meanwhile, to measure standard of livability as a dependent variable, this research picks Gini Ratio as a proxy (See Table 1). Thus, based on the explanation, mathematically, the model of this research can be seen bellow:

$$SL = \beta_0 + \beta_1 IFD + e \qquad (1)$$

Table 1. Operational Definition of Variable

Variable	Proxy
Islamic Financial Development refers to the growth and enhancement of financial systems and services that operate in accordance with Islamic law. This includes the expansion and improvement of the Islamic financial institution as well as its' products and services	The development of financing form
Standard of Livability refers to the overall quality of life experienced by individuals in a given area, ncluding income levels, access to basic services, housing quality, safety, environmental conditions, and social well-being	Gini Ratio

RESULT AND DISCUSSION

Classical Assumption Test

A thorough classical assumption test has been executed to validate the integrity of the research data by ensuring its freedom from any classical assumption issues (Table 2). The examination encompasses three pivotal classical assumptions: normality, multicollinearity, and heteroscedasticity. The comprehensive findings of this classical assumption test are presented in the table below. This meticulous scrutiny serves to fortify the robustness and reliability of the dataset, laying the groundwork for the subsequent analytical phases of the research.

Table 2. Classical Assumption Test

Classical Assumption Test	Criteria	Value		Description
Normality	Sig-value>0.05	0.000 < 0.05		The data is not normally distributed. However, this condition is still acceptable according to the Theory of Central limit (Kwak & Kim, 2017; Studenmund, 2006)
Multicollinearity	Sig-value>0.05	IFD > SL	Tolerance .210	There is no multicollinearity
Heterscedasticity	Sig-value>0.05	IFD > SL	016 > 0.05 .	There is no heteroscedasticity

Best Model Estimation

Analyzing and identifying the optimal model holds paramount significance in the context of panel regression, particularly when elucidating the intricate relationship between Islamic financial development and the standard of livability. Employing rigorous statistical methodologies, two pivotal tests, namely the Chow and Hausman tests, are executed to discern the most fitting panel regression model.

The Chow test, a pivotal component of this model selection process, serves the purpose of evaluating and contrasting the Common Effect Model (CEM) with the Fixed Effect Model (FEM). Simultaneously, the Hausman test is executed to meticulously scrutinize and compare the Fixed Effect Model (FEM) against the Random Effect Model (REM).

A closer examination of the results, specifically referring to Table 2, reveals a noteworthy observation regarding the p-value of the Cross-section F-statistic, reached 0.00, indicating statistical significance at a level below the threshold of 0.05. This statistical outcome derived from the Chow test revealed that the superiority of the Fixed Effect Model (FEM) is better than the Common Effect Model (CEM) in effectively portraying the relationship between dependent and independent variables.

In sum, the meticulous model selection process, incorporating both the Chow and Hausman tests, contributes to elevating the sophistication and precision of our panel regression analysis. The statistical evidence highlights the robustness of the chosen Fixed Effect Model (FEM) in capturing the complexities inherent in the relationship between Islamic financial development and the standard of livability (Table 3).

Table 3. Chow Test

Effects Test	Statistic	d.f	Prob.
Cross-section F	162.746	(32,155)	0.000
Cross-section Chi-square		32	0.000

Moreover, a meticulous examination of the Hausman test further substantiates the proximity to the optimal condition, revealing that the Fixed Effect Model (FEM) also better than the Random Effect Model (REM) in accurately capturing the intricate relationship between Islamic financial development and the standard of livability. This assertion is supported by the notable statistical observation pertaining to the p-value of the cross-section random variable, which reached at 0.00, falling below the significance threshold of 0.05 (refer to Table 4).

Table 4. Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq d.f	Prob.
Cross-section random	11. 428533	2	0.0033

Panel Regression Test

Table 5 presents compelling evidence that Islamic financial development (IFD) exerts a positive and statistically significant impact on the standard of livability. The coefficient, recorded at 0.1238, along with a p-value of 0.002 < 0.05, which means that every1% advancement in the Islamic financial sector leads to an approximate 12.38% increase in the national standard of livability. This empirical result highlights the substantive role played by the Islamic financial sector in elevating the living standards of Indonesians.

Table 5. Panel Regression with Fixed Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IFD → SL	0.1238	0.0328	3.7672	0.002

The Influence of Islamic Finance Development on Standard Livability

A good standard of livability has evolved into a global imperative, presenting a formidable challenge for governments and development-focused entities dedicated to its eradication (Shabbir, Kassim, Faisal, Abbas, & Sabti, 2018). In the context of Islam, the quality of living serves as a crucial metric for assessing the realization of *maslahah*, particularly in nations where Islam is the predominant faith. This aligns with the *maqāṣid* sharia theory, which commandsindividuals and organizations to fulfill five primary needs—*hifdz al-dīn, hifdz al-ʻaql, hifdz al-nafs, hifdz al-nasl, and hifdz al-māl*—in pursuit of *falah*, or comprehensive well-being ((Rasool, Yusof, & Ali, 2020), because *maqāṣid* sharia represents a directive governed by Islamic principles, imperative for the betterment of humanity.

According to Islamic tenets, a favorable standard of livability translates into life satisfaction, enabling individuals to satisfy their daily necessities in a harmonious manner, encompassing education, healthcare, and economic pursuits. This holistic approach fosters increased productivity and skill development among individuals. In addition, the Qur'an's emphasis on the general welfare of humankind and the imperative to strike a balance between worldly pursuits and the Hereafter (Al-Baqarah: 201), Islam underscores the importance of a well-rounded and satisfactory standard of living.

As Indonesia becomes one of country with the lowest living standard in the world according to (United Nations Development Program (UNDP), 2022), government has undertaken a variety of initiatives to prevent the effects of this issue, and lessen any possible negative effects. In addition, as Muslim-majority nation Indonesia has a great opportunity to keep up with high economic expansion throughout the Islamic financial industry, specifically Islamic banking (Anggraini, 2019). This strategic positioning is highlighted by the potential of Islamic banking to serve as a catalyst for economic growth, acting as an effective financial intermediary institution by channeling resources from entities with financial surpluses to those facing financial shortages.

Furthermore, the presence of Islamic finance plays a pivotal role in mobilizing productive enterprises through Islamic business models such as *murābaha, muḍāraba, and musyāraka,* employing ethical financing structures to drive national economic growth. By avoiding interest-based financing, Islamic banks can provide capital to entrepreneurs in a manner that shares risks and rewards. This support for entrepreneurial ventures stimulates economic growth, creates job opportunities, and enhances the overall standard of living. This approach stimulates savings and facilitates lending through financing ventures that adhere to ethically acceptable standards, contributing to the realization of Economic Sustainable Development Goals (SDGs) (Eccles, 2019; Imam & Kpodar, 2016). In addition, as Islamic finance operates based on ethical principles, avoiding interest (usury) and speculative transactions, every financial activity of the bank aligned with ethical standards, promoting fair and responsible financing. This scheme can lead to a more equitable distribution of resources and reduce financial exploitation, positively impacting the economic well-being of individuals.

Moreover, Islamic financial industry emphasizes the inclusion of all individuals in financial activities. This includes providing access to financial services for marginalized and underserved populations. By fostering financial inclusion, Islamic financial institutions can empower individuals and communities, allowing them to better manage their finances and improve their overall quality of life. In addition, Islamic finance also incorporates the concept of zakat, a form of charitable giving, as one of its pillars. Financial institutions often engage in philanthropic activities and social welfare projects, funded through zakat contributions. These initiatives can address social issues, such as poverty and healthcare, directly improving the well-being of the less fortunate.

Another reason why Islamic finance can significantly increase standard of livability because it promotes risk-sharing mechanisms, where both profits and losses are shared between the parties involved. This encourages a more stable and resilient financial system, as opposed to conventional systems that rely heavily on debt. Increased financial stability contributes to economic growth and stability, positively impacting the standard of living. Then, Aligns with Sustainable Development Goals (SDGs), Islamic banking principles are inherently aligned with sustainability and responsible investing. Investing in projects that adhere to environmental and social standards helps achieve sustainable development goals. This approach ensures that economic growth is not only robust but also sustainable and inclusive.

In sum, Islamic banking and financial development can elevate living standards by promoting ethical financial practices, fostering financial inclusion, supporting entrepreneurship, contributing to social welfare, enhancing financial stability, and aligning with sustainable development objectives. These aspects collectively contribute to a more equitable and prosperous society. Additionally, the development of Islamic finance also can stimulate economic activities, leading to job creation and increased income levels. As Islamic financial institutions expand, they create opportunities in sectors such as Islamic banking, insurance, and investment, contributing to overall economic growth and an improved standard of living.

Therefore, when the financial sector is more developed, more financial resources can be allocated into productive use, and more physical capital can be formed which can contribute positively to economic growth, leading the increasing standard of livability in such nation. This condition in in line with the argument revealed by Farahani and Hossein, (2012), Anggraini, (2019) and Azwar et al., (2022) who delineated that the long run, Islamic banks' financing is positive and significantly correlated with economic growth and capital accumulation in these countries. Then, it affects significantly to the sort run in explaining the changes in inequality. Therefore, when income inequality is decreased it might be affected to the increasing standard of livability. In addition, realizing wellbeing for standard livability is in line with the purpose of *maqāṣid sharia*, specifically *hifdz al-nafs* (protecting/nurturing life) from suffer condition such as lack of finance, education and health, which lead them to be unskilled labor with lower wages and lower standard livability.

CONCLUSION AND SUGGESTION

As living standard become concerned for all emerging nations to keep up with high economic expansion, Indonesia government implemented various measures to tackle the effect of these two problems to reduce any potential negative impacts. As one Islamic financial sector, Islamic banking play a significant role to enhance national economic development throughout Islamic business model by stimulating saving, lending through financing ethically acceptable ventures to the most productive economic activities and users which may impact to stimulate capitalization, reducing finance inequality that might be impacted to the increasing standard of livability as one of economic sustainable development goals. This is also in line with the purpose of *maqāṣid sharia*, specifically *hifdz al-nafs* (protecting/nurturing life).

However, the results of this study have not been able to generalize for all developing nations, because it was conducted only in Indonesia to confirm the empirical findings of this research. Thus, it is important to examine more in-depth related research findings with panel data regression from numerous nations which have closes characteristic with Indonesia. Furthermore, the analysis of this framework will help to understand the role of financial involvement in sustainable development for discussion of financial and distribution policies for the lower income group.

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