

## STUDY OF SOCIAL FUNCTIONS IN THE ECONOMIC ACTIONS OF SHARIA MICROFINANCE INSTITUTIONS

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### Abstract

*Provide the perception toward the social function of the economic action undertaken. 2) determine the form of the social functions performed by the actors in sharia microfinance institutions. This study used a qualitative method with phenomenological approach. The findings of this study are: 1) the perception of the social function by the actors of sharia microfinance institutions respectively: a) perception of social function is as management of zakat, infaq, and alms known in the concept of Baitul Maal. b) the social function as a medium of empowerment of poor communities where the sharia microfinance institutions are capable in producing new entrepreneurs. c) the social function as propaganda/symbols of Islam, Islamic microfinance institutions serve to eradicate the practice of existing usurer in the community. 2) The form of social functions held by sharia microfinance institutions are: a) The distribution of social grants, the distribution of development aid in the form of mosques, procurement assistance of Al-Quran, home renovation, distribution of Zakat funds as well as scholarships to students who cannot afford school. b) Help the poor public capital, capital assistance is intended for the poor, capital assistance is also easy for small traders in accessing financing. c) Optimalization the role of sharia microfinance institutions by opening branches in remote areas which aim to facilitate the public in accessing Sharia financial institutions and also propaganda symbols of Islam in religious activities.*

**Keywords:** Socialfunction, Form of Social function, Sharia Microfinance Institutions.

### INTRODUCTION

Sharia financial institutions such as sharia banking not only function as investment managers and financial service providers, but also have an important role as social service providers. In view of the Islamic banking concept, Islamic banks are required to provide social services through instruments such as kindness loan funds (qard), zakat, or other social funds that are in accordance with Islamic teachings. Furthermore, the Islamic banking concept requires sharia banks to play an active role in developing human resources and contributing funds for environmental maintenance and development.

In Law no. 21 of 2008 concerning Sharia Banking, the social role of Islamic banks is clearly emphasized. Article 4 states that apart from being responsible for collecting and distributing public funds, Sharia Banks, and Sharia Business Units (UUS) can also carry out social functions through Baitul Mal institutions. This institution is tasked with receiving funds originating from zakat, infaq, alms, grants, or other social funds and distributing them to organizations that manage zakat. Apart from that, Sharia Banks and UUS are also allowed to collect social funds from cash waqf and distribute them to waqf managers (nazhir) in accordance with the wishes of the waqf giver (wakif). Apart from collecting and distributing zakat and waqf, sharia banks also offer qardh financing products (benevolent funds). This product is included in the social responsibility of Islamic banks which is not available in

conventional banks. Therefore, it is clear that the social function of Islamic banks is very strategic in realizing community welfare through various Islamic economic instruments (Akrom, 2022).

Based on the results of research by the Investment Business Advisory Service (IBAS) in 2004, of the 42 million MSMEs, only around 13% had access to banking, while the other 87% still relied on their own capital. Of the 13%, the majority are medium-sized businesses that have relatively better business conditions, both in terms of management, business prospects, as well as the quality of human resources (HR) and technology. Apart from that, the level of financing needs is also relatively greater, so it is quite economical to obtain financing from banks.

The implementation of Islamic law principles in financial institutions must follow several main provisions, namely: prohibiting the practice of usury, ensuring that financing is only carried out in halal sectors, and investing in real sectors that are free from uncertainty. In addition, all financial activities must avoid uncertain elements, such as gambling. Sharia financial institutions not only focus on achieving profits, but also have a social responsibility to distribute economic factors fairly.

## **LITERATURE REVIEW**

### **Social Function Paradigm in Sharia Financial Institutions**

According to (Shubber, 2010) explains that there are three main basic principles in Islamic financial institutions. The first principle is that humans were created as caliphs or leaders on earth. The second principle is accountability to Allah, and the third principle is the obligation to compete to do good and avoid all evil. These three principles serve as guidelines for implementing social functions in sharia financial institutions.

The principle of the caliphate indicates that humans are God's representatives on earth and, with His permission, are entrusted with managing property that comes from God. This is confirmed in the Qur'an, as in Surah Al-Baqarah Verse 30 and Surah Al-An'am Verse 165. The principle of accountability to Allah flows from the principle of caliphate and shows that every individual will be held accountable for their actions on the Day of Judgment. This principle is also explained in several verses of the Koran, including Surah An-Nisa Verse 86 and Surah Al-Zalzalah Verses 7-8.

### **Forms of Social Functions in Sharia Financial Institutions**

According to (Najib, 2018) research on Islamic bank customers in Malaysia shows that Islamic banks are the main choice because of the Islamic principles applied and the quality of finance and services provided. In addition, good social function practices, comfort, and appropriate products are also considered important factors. According to (T. Khan & Ahmed, 2001) states that in investment, Islamic investors pay close attention to halal and haram criteria as characteristics. The element of gharar, namely fraud, is considered illegal according to sharia law, so transparency in the investment process is crucial as a manifestation of social functions. Furthermore (Aderemi & Ishak, 2023) revealed that

Islamic bank managers agree that to improve social functions, Islamic banking must provide Qardhul Hasan financing to help those in need. In addition, banks need to diversify products, especially Qardhul Hasan, with appropriate financing guidelines and policies.

### **Defining Social Performance in Sharia Financial Institutions**

The definition of social performance in Islamic financial institutions still varies from institution to institution because there are no standard guidelines regarding the implementation of social performance. Therefore, research needs to be carried out to understand how social performance is actually implemented by Islamic financial institutions. According to (A. Q. Khan & Bhatti, 2018) explains that the functions and roles of Islamic banks include: (1) Investment managers who manage customer funds through mudharabah contracts or as investment agents; (2) Investors who invest their own funds or customer funds entrusted to them using investment instruments in accordance with sharia principles, and share the results according to the agreed ratio; (3) Providers of financial services and payment services that do not conflict with sharia principles; and (4) Managing social funds such as zakat, infaq, sadaqah, and benevolent loans (qardhul hasan) in accordance with applicable regulations. From this explanation, it is clear that the first to third functions relate to business aspects, while the fourth function focuses on the social role of Islamic banks. Meanwhile (Mohammad Alsharari, 2021) states that performance evaluation is a method for measuring company achievements based on targets that have been set at the beginning. This evaluation is an important part of measurement control that can help the company improve its performance in the future. In Islam, performance evaluation is highly recommended, with the concept of muhasabah as the main representation of performance evaluation that can be applied to both individuals and companies. This concept is an important philosophical basis for evaluating the performance of Islamic banks, including aspects of their social performance.

Due to the unique character of Islamic banks which have a social function, assessment measuring tools need to be developed specifically to reflect the operating model of these Islamic banks. Unfortunately, research on the performance of Islamic banks in Indonesia generally focuses more on financial or business performance only (Prawira, 2007); (Rosyadi, 2007); (Arsil, 2007); (Mahfudz, 2006); (Rindawati, 2007).

Research (Hassan et al., 2023) on Social Performance in Sharia Financial Institutions is an important initial example in efforts to evaluate the social performance of Islamic financial institutions. In this research, they not only used general financial ratios such as profitability, liquidity, risk and solvency ratios, but also assessed the commitment of Islamic banks to the development of the Muslim economy and society.

### **METHOD**

Researchers used qualitative research methods to understand the perception of social functions in sharia microfinance institutions. Qualitative research is used to uncover and understand something behind a phenomenon that is still very little known. Sugiyono was

quoted as saying (Arifudin, 2023) explaining that qualitative research methods are research methods used to examine the conditions of natural objects where the researcher is the key instrument. Meanwhile, Moleong, quoted by (Haris, 2023) defines qualitative research as research that seeks to understand the phenomenon of what research subjects experience holistically and descriptions in the form of words and language, in a special natural context and by utilizing various natural methods.

Based on the research objectives previously stated, namely, to examine in more depth the perception of social functions by sharia microfinance institution actors, in this research the researcher used a phenomenological approach. This phenomenological approach was chosen to understand the meaning of an event and the relationships within it in more depth.

Apart from the definition above, Bungin in (Tanjung, 2023) explains that phenomenology can also be understood as an effort to reveal or dismantle something hidden from within the perpetrator. This happens because basically reality is subjective and meaningful, so this research depends on the perception, understanding, understanding and assumptions of the informants.

By using a phenomenological approach, it is hoped that we will obtain a true picture of the understanding of the perception of social functions that occur in sharia microfinance institutions, because using this method really pays attention to the subjectivity of informants so that the actual conditions will be known, but without going outside the existing framework.

The research location is in the West Java region by taking several samples of sharia microfinance institutions. The research was conducted at the Baitul Maal Wat Tamwil (BMT) Al-Falah Sharia Cooperative, Alfa Dirham Mandiri Baitul Maal Wat Tamwil (BMT) Sharia Cooperative in Cirebon.

## **RESULTS AND DISCUSSION**

### **Perceptions of Sharia Microfinance Institution Actors Regarding Social Functions**

Sharia Microfinance Institution (LKMS) actors view the social function of this institution in several aspects. Information regarding this perception was obtained through field observations and interviews with informants who were the focus of the research. This research focuses on how LKMS actors understand social functions and identify the forms of social functions implemented by them.

#### **Social Function as Management of Zakat, Infaq and Alms**

The first social function that is perceived is as a manager of zakat, infaq and alms. This concept is rooted in Baitul Maal, which functions as an institution that receives and distributes social funds. In Indonesia, this institution is often known as Baitul Maal wat Tamwil (BMT), which combines the function of Baitul Maal for managing zakat, infaq, alms and waqf, with the function of Baitul Tamwil for business activities.

According to (Suzuki & Pramono, 2020) explains that Baitul Maal means "house of funds," while Baitul Tamwil means "house of business." During the time of the Prophet,

Baitul Maal collected and distributed social funds, while Baitul Tamwil was a profit-oriented business institution.

Examples of implementation at Baitul Maal Wat Tamwil (BMT) Al-Falah include consumptive zakat, productive zakat, and educational scholarships. Consumptive zakat in the form of necessities is given to mustahiq around the office, productive zakat is used to purchase goods and business capital, and scholarship zakat is given to students who are continuing their education at university.

### **Principles of Professionalism in Social Fund Management**

Management of social funds by sharia microfinance institutions must be carried out professionally, with the principles of accountability, transparency, and accuracy in distribution. Farook in (Fasa, 2020) states three main principles of Islamic financial institutions: humans as caliphs, responsibility to Allah, and the obligation to compete in goodness. Social funds, which are obtained from company zakat or remaining business profits, need to be managed professionally to achieve social goals. An example of the application of this principle can be seen at Baitul Maal Wat Tamwil (BMT) Al-Falah, the Baitul Maal Wat Tamwil (BMT) Alfa Dirham Mandiri Sharia Cooperative in Cirebon, which has special employees to handle zakat, infaq and alms.

### **Social Function as Empowerment of Dhuafa Communities**

Sharia microfinance institutions act as intermediaries between parties who have funds and those who need them through financing agreements in accordance with sharia principles. Empowerment of poor communities is carried out by providing financing through qardhul hasan contracts, which are loans without profit in return. This helps poor people to start or develop businesses and is expected to improve their welfare.

Qardhul hasan, based on hadith and ijma' ulama, is an interest-free loan which is more recommended than alms. Baitul Maal Wat Tamwil (BMT) Alfa Dirham Mandiri in Cirebon, for example, uses this agreement to empower poor people and lighten their burden compared to loans from loan sharks which impose high costs.

### **Social Function as Dakwah / Islamic Proclamation**

The third perceived social function is as a medium for preaching and spreading Islam. LKMS plays a role in eradicating loan shark practices and providing an understanding of sharia economics. Da'wah is carried out by introducing sharia principles in financial transactions and opening branches in remote areas to facilitate public access. For example, BMT Sidogiri opened branches in areas far from banking access to serve the community.

### **Entrepreneurial Development Concept**

Sources of funds for sharia microfinance institutions can come from the community, their own capital, or banks. Zakat, infaq and alms collected must be distributed to those who are entitled. Poor people can take advantage of the services of sharia financial institutions

for economic empowerment, especially through zakat, infaq and alms funds. The aim of empowerment is to help poor people improve their economic conditions so they can meet their daily needs.

Empowering poor people is one form of social function. Through sharia microfinance institutions, empowerment is carried out by distributing qordhul hasan funds, namely benevolent loans that are returned without compensation. After that, the financing model can continue with a musyarakah agreement, where the customer repays the loaned funds in installments. This process also functions to discipline poor people.

Empowering the poor does not only involve providing cash funds that can just run out. These funds should be used for business purposes, so that capital circulation occurs. With the capital obtained and successful businesses, poor people can earn sufficient income for their daily needs.

### **Capital for Dhuafa Communities**

Epistemologically, the word qardhul hasan comes from qord which means to cut. This means that the assets given are “cut” when lent. Based on the hadith of the Prophet SAW, giving loans using al-qard is preferred by Allah compared to alms. This is the sunnah of the Prophet SAW and the ijma' of the ulama.

In terminology, al-qardul al-hasan (benevolent loan) is a loan given solely on the basis of social obligations, where the borrower is only required to return the principal without financial gain (Antonio, 2001). According to the Qardhul Hasan BNI Syariah Handbook quoted (Labetubun, 2021), al-qard al-hasan is a financing agreement between the bank and customers who are deemed worthy of receiving it, especially small entrepreneurs who have potential but do not have capital. Recipients of financing are only required to return the principal at maturity, and banks can charge customers with administration fees and other costs for making agreements.

The model for empowering poor people mainly uses the qardhul hasan agreement. This agreement aims to help poor people so that they can develop their businesses and not fall into poverty. With lower costs compared to loan sharks, sharia microfinance institutions provide more productive assistance, so that poor people can save or use the funds for business.

### **Da'wah in Popularizing Islamic Economics**

Da'wah can be realized through activities in sharia microfinance institutions by implementing sharia principles in financial transactions. Da'wah can also be carried out by opening branches in remote areas and through daily activities at sharia financial institutions. Socialization about sharia economics can be done by teaching in schools or boarding schools, bringing financial institution actors closer to the community, and facilitating people's understanding of the sharia economic system.

### **Forms of Social Functions in Sharia Microfinance Institutions**

Sharia microfinance institutions play an important role in implementing social functions aimed at community welfare. Social funds obtained by this institution are not only used for business purposes, but also for useful social activities. One of the main objectives of this social fund is to prosper and build mosques as centers of social religious activity. The assistance provided covers both physical and non-physical aspects, including improvements to mosque infrastructure and support for religious activities there.

Apart from that, sharia microfinance institutions are also committed to providing social assistance to the community and employees. The forms of assistance distributed include house renovation programs to improve the quality of housing for underprivileged people, as well as assistance for treatment and health checks for those in need. This assistance also extends to communities affected by natural disasters, as an effort to ease their burden in difficult situations.

In an effort to realize this social function, sharia microfinance institutions implement various forms of social assistance. The distribution of social assistance funds is not only in the form of compensation, but also includes various social activities that support community welfare. One example is providing health compensation, carrying out house renovations, and providing scholarships to students in need. Apart from that, this institution also provides direct assistance to mosques to support religious activities.

As part of implementing its social functions, sharia microfinance institutions also organize entrepreneurship training. For example, Kanindo Syariah holds entrepreneurship training which is attended by mosque takmirs. These training programs often provide subsidies for participants, showing that mosque empowerment does not only include physical maintenance, but also involves non-physical aspects such as developing human capacity. With this approach, sharia microfinance institutions try to ensure that the empowerment of mosques and communities is not only fulfilled from a material perspective, but also in terms of human resource development.

### **Assistance for Community and Employee Welfare**

Apart from focusing assistance on mosques, sharia microfinance institutions also carry out social functions in the form of direct assistance to the community and employees. One form of this assistance is the house renovation program. The house is an essential residence for life and a gathering place for family members. Poor housing conditions can have a negative impact on the quality of life of residents. Therefore, assistance in the form of house renovations aims to improve the living conditions of underprivileged people, so that they can enjoy a better life.

Employees are also an important aspect in the operations of Islamic financial institutions. In some cases, there is an imbalance in the bargaining position between employees and management, especially in terms of salaries. Heavy workloads and low salaries can create conditions that are not ideal for employees. Therefore, sharia

microfinance institutions strive to pay special attention to employee welfare as part of their social responsibility.

Apart from that, sharia microfinance institutions also play a role in the education sector by providing educational assistance in the form of scholarship programs. This program is aimed at students from underprivileged families as well as students who excel in their classes. By providing access to proper education, this institution strives to improve the living standards of future generations and provide them with better opportunities for the future. This educational assistance reflects the institution's commitment to supporting the development of individual potential and improving community welfare in a sustainable manner.

### **Forms of Capital Assistance**

Capital assistance is provided to people in need, especially those who are less fortunate. This capital is distributed in the form of working capital which is adjusted to the recipient's business capabilities. This capital assistance can be provided in stages during the implementation of the financing agreement, with the main aim being that the recipient of the assistance is able to develop their business, or even form a new entrepreneur from scratch.

This capital assistance often uses a qardhul hasan contract, namely a loan for good deeds sourced from zakat, infaq and alms funds. If the aid recipient does not succeed in developing his business and the capital runs out, this is not a problem because the main purpose of the funds is to help. However, if the recipient of the assistance is successful, the capital can be increased using a qard contract or a loan without additional funds. If the business develops further, financing can be increased through a syirkah or mudharabah agreement, where the recipient begins to share the profits from the business being run. It is hoped that this increase in capital assistance will have a positive impact on the quantity of business and community welfare.

For example, Baitul Maal Wat Tamwil (BMT) Al-Falabs applies productive zakat as a form of capital assistance, providing assistance in the form of cash or other business needs according to the recipient's abilities and needs.

### **Continuity in Empowering Dhuafa Communities**

Funds given to poor people need to be evaluated periodically for their success. In every business, both profits and losses are realities that must be faced. Funds distributed in the form of capital, especially those originating from zakat, are the right of the recipient and must be used wisely. The implementation of the productive zakat pattern aims to ensure that these funds can be used effectively, especially for business, by providing assistance and direction in their use.

As part of the social function of sharia microfinance institutions, it is important to provide lessons on business financial management. The funds used initially, which come from zakat, are the right of the recipient. If the business is successful, the business volume can be increased by providing additional capital through a qard contract, where the borrowed



funds must be returned within a certain period of time without incurring additional costs, both for profit sharing and profit margins.

The next social function involves providing capital assistance to impoverished individuals in need. The initial funds are sourced from zakat. If the business established with these funds succeeds, additional financing can be provided through a qard contract. As the business continues to grow and requires further investment, it can transition to a musyarakah or mudharabah agreement. The goal of this assistance is to help recipients develop their businesses, thereby improving their standard of living. As their income increases from the success of their businesses, these recipients, who initially benefited from zakat, can eventually contribute by giving infaq and alms, creating a cycle of empowerment and support within the community.

### **Optimizing the Role of Sharia Microfinance Institutions**

Sharia microfinance institutions have a dual function as business institutions and social institutions. This function is closely related to the concepts of baitul maal and baitul tamwil, which are well known in Indonesian society. As business institutions, sharia microfinance institutions can operate in line with their role as social institutions. One of the strategic steps is to open a network or branch offices in areas that are still difficult to reach for financial institutions, especially sharia institutions. This will enable sharia micro institutions to handle customers who need micro financing that cannot be reached by banks, thereby opening up new business opportunities.

Apart from the business aspect, opening branches in remote areas also supports the mission of spreading the word of Islam. Sharia microfinance institutions can introduce sharia financing systems and preach through various religious activities, such as recitation of the Koran or religious studies. In this way, social and business functions can go hand in hand, in accordance with the concept of Baitul Maal Wat Tamwil.

### **Expanding the Working Area of Sharia Microfinance Institutions**

Usually, the working area of sharia microfinance institutions is limited to a certain community or one sub-district or city area. However, to increase the role of sharia financial institutions as Islamic broadcast media in the economic sector, expanding the working area is very important. The opening of branches in various regions can be driven by increasing consumer demand and the need for Islamic broadcasting. This expansion not only answers market needs but also fulfills the social function of sharia microfinance institutions in spreading sharia financial principles to wider areas.

## **CLOSING**

### **Conclusion**

Based on respondents' perceptions of the social function in the economic actions of sharia microfinance institutions, there are several important findings as follows:

1. The social function of sharia microfinance institutions is perceived as a manifestation of the management of zakat, infaq and alms, which in the context of this institution is known as baitul maal. This social function is considered a form of empowerment for poor people, where the institution plays a role in creating new entrepreneurs from underprivileged communities. Apart from that, the social function is also perceived as da'wah or spreading Islam. In this case, sharia financial institutions play a role in eradicating loan sharking practices that are often experienced by small traders and socializing the Islamic economic system, by ensuring that every economic transaction is carried out in accordance with sharia principles.
2. Various forms of social functions carried out by sharia microfinance institutions include several aspects. One of them is the distribution of social assistance funds, which includes prosperity and the construction of mosques as centers for Islamic preaching. In this case, assistance is provided in the form of compensation to the mosque takmir as well as meeting the needs for learning to read and write the Koran. Apart from that, sharia microfinance institutions also provide capital assistance to poor people. This assistance is provided using a qordhul hasan contract, and if the business being run develops, financing can be increased through a qord contract, and then through cooperation in profit sharing or buying and selling.
3. Sharia microfinance institutions are trying to optimize their role by opening branches in remote areas. By expanding its network to unreached areas, this institution not only improves services but also expands Islamic da'wah, reaching people who previously had not access.

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