

Developed Countries: Challenges of Developing Countries, the Role of Islamic Institutions and Finance in Indonesia

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Abstract

Role something institutional very needed in the activity process development for improve infrastructure development for the sake of prosperity life public and shift from country develop become country forward. Study this background by policy the economy is not optimal, uncertainty law and regulation, low power global competitiveness, lack inclusion finance, inclusion finance sharia, and inequality economy and social. Study This aim for analyze so far where role institutional for development in Indonesia towards shift development from country develop going to country forward. Method used in study this is use approach qualitative with use studies references and based on phenomenon that occurs. Results study this state that with development system institutional keep going optimized, policies push change from country develop going to country proceed become choice government. System finance sharia capable sustain strengthening economy society. Implications practical from this paper importance optimizing side of economic development and finance sharia for speed up change become country forward, and possible welfare enjoyed society.

Keywords: Developed Countries; Economic Development & Finance Sharia; Role Institutional

A. Introduction

The development process is basically not just an economic phenomenon. Development is not only shown by the achievement of economic growth achieved by a country, but development actually has a broader perspective. The social dimension that is often neglected in the economic growth approach, actually gets a strategic place in the economic growth approach. However, the term development is often narrowed down to economic development because development tends to be synonymous with progress in the material sector. In fact, development concerns many fields such as development in the social, political, cultural, defense, even in the security sector.

Thus, economic development is defined as a process that causes the per capita income of the population to increase in the long term, accompanied by changes in the important characteristics of a society, namely changes in the state of the political system, social structure, community values and the structure of economic activity. With the name of change, there must be uncertainty in it, sometimes it can achieve changes in a better direction, not infrequently the economic development that is carried out actually results in changes in a worse direction.

In an effort to minimize uncertainty in economic development, an important institutional role is needed. institutional originate from say institution which means rule in organization or group public for help its members can interact with others to achieve desired goals. Apart from that, the institution can interpreted as rule in a group social which very influenced by factors social, political, and economy. Institutional containing bunch person which cooperate with distribution task certain for reach something objective which are desired.

In studying general, Prof. Bambang Brodjonegoro, Ph.D., conveyed the philosophy of Islamic economics is an economy that can translate the values of the Islamic religion into everyday life based on goods and services without usury. One of them is zakat which can be used as an instrument for equity in the economy while reducing poverty and prevent inequality.

Islamic economics in Indonesia during the new order period was still ambiguous, because there were two views between the pros and cons. At that time too, Islamic based banking in order to be accepted by the public did not use the term *Islamic* but instead used the term sharia. Because adhering to the values of the Islamic economy include ownership, justice, togetherness or cooperation, and balance.

The important role of institutions in the economy as a means to reduce uncertainty or turn it into risk. The reduction in uncertainty results in lower transaction costs, so that trade in the market will increase and automatically lead to increased prosperity and economic activity. At the macro level (*institutional environment*), the focus of institutional economics is to prepare the basis for production, exchange and distribution of various aspects, both legal, economic, political and social. At this point, every country needs to prepare economic development as the basis for preparing economic institutions.

Of course, the economic development strategy must be considered carefully because it will have implications for the formulation of institutional arrangements *at* the micro level. In the perspective of institutional economics, economic development is considered as the key that will determine the technical policies to roll out economic activity. In this way, it is understandable that each country needs clear development as a basis for developing more detailed economic institutions.

Thus, the role of institutions in the economy tends to be related to existing market conditions. If market conditions are already open and integrated, then the role of institutions in driving the economy becomes bigger. So that the development of effective and efficient institutions is needed in supporting the development of the market as well as the economy in Indonesia.

B. Research Methods

Method used researcher in study this is approach qualitative. Method qualitative is a way more emphasize analysis or descriptive. In a research process qualitative things that are perspective subject more highlighted and base theory utilized by researcher as guide, so that the research process in accordance with facts found on the ground. Qualitative methods aim to explain a phenomenon in depth and are carried out by collecting data as deeply as possible.

Qualitative methods emphasize more on observing phenomena and examining the substance of the meaning of these phenomena. The analysis and acumen of qualitative research are greatly affected by the strength of the words and sentences used. Therefore, Basri concluded that the focus of qualitative research is on the process and the meaning of the results. The attention of qualitative research is more focused on the elements of humans, objects, and institutions, as well as the relationships or interactions between these elements, in an effort to understand an event, behavior, or phenomenon.

C. Result and Discussion

Figure economy institutional, Douglass C. North mentions that institutional economy formed by such formal rules, laws, and constitution and informal rules in the form of agreement and norm. Something institution economy trusted is key from development economy. On the other hand, Indonesia is rich country source power, and source power is material burn from development economy. However why until moment this still stuck in class country growing? is There is another factor to be cause? Or institutional economy in Indonesia no support development?

On basically role something institutional very needed in the activity process development for increase all infrastructure for welfare life society. Institutional is

something connection formed human through structure group in formed society for arrange something organization with same goal and restricted by norms as well as code ethics for success beginning from formation institutional the.

In something development in the area role institutional very important existence, cause institutional also become key success in smoothness and walk development. Something institutional must can read and monitor all activity the economy in the world outside. This is so institutional can predict development continuing economy experience change from time to time. Stage beginning formation something institutional must very note, completeness and readiness something group must built in a manner ripe so no raises chaos on moment operate something institution or organization.

In the era of modernization this all something already very made easy with sophistication existing technology very proceed so that make it easy all activity and need human. For balance in this modern era important exists development good in infrastructure and economy to balance all desired needs by man as well as not happen behind area one with other areas.

The more the passage of time, development infrastructure nor the economy in the area in the future will lots very challenges faced, such as challenge for still keep going guard balance development and equity in the area, remains complete guaranteed needs for service society, and still Keep going materialize development sustainable area. By Because that is, role responsible institution answer with structure clear organization very necessary for success development economy area.

However on in fact, the development of an increasingly modern era is not also make the state of Indonesia become more countries proceed in fields certain. So that exists the term "abyss". separator between the rich with is poor too happened in a country. On basically almost all country own potency become rich country. This caused a number of reason that is because potency source power nature, technology, resources power human, and source power others, like location geographic. Only course, with existence source owned power, still Lots distant country from rich title, even near with poverty. This is what causes something country capable become rich country, meanwhile other countries anyway poor or in other words still stuck in class country develop like Indonesia.

As country developing, institutions in the state of Indonesia actually no only my position hand without do possible actions change development status become state status forward. In fact, reform institutional Indonesia's economy already applied and taken for face challenge and create opportunity for sustainable growth. Indonesian, as wrong one country with economy largest in Southeast Asia, has experience transformation significant economy since crisis financial on end the 1990. However, for reach development and growth more economy inclusive, sustainable, and justice, the state of Indonesia needs do reform deep institutional.

On one side, the state of Indonesia did reform institutional for support development inclusive infrastructure and sustainable, but on the other hand, the problems faced by Indonesia as well increasingly increasing (more be so) includes inequality economy, vulnerability to fluctuation price global commodity, resilience to change climate, gap infrastructure between region urban and rural, repair climate investment, complicated bureaucracy, corruption, as well low power competitive and innovation in the sector industry make reform institutional rated in vain (no capable change system institutional to more direction good from facet whatever).

The factors behind the Indonesian state are trapped in country with developing status that is as following:

1. Condition Geographical

Factor condition geographical can become determinant something country get rich or poor. countries poor in Africa, like Congo, Ethiopia, Nigeria, Liberia have dry weather, the cause the land become stretcher, no productive for agriculture. Poverty a number of Country in Africa aggravated by various haunting disease its citizens, animals their cattle have and plant food, so cause low results food. The low results food make low well-being its citizens. Congo is country second largest on the continent the real Africa own riches source power natural abundant. However, due to its corrupt political system, the country is lagging behind in the economic and social fields.

Several countries in Africa are poor because of a lack of water sources for agricultural land, dry because they are far from the irrigation of the Nile River which is the source of water for most African countries. This causes agriculture to be very unproductive and unable to meet the food needs of its population. The need for food

that is not fulfilled makes them vulnerable to disease because of their weak immune system. In addition to weather and disease factors, unfavorable geographical location is also a cause of poverty as experienced by South American countries, such as Bolivia and Paraguay, whose economic mobility is limited due to being flanked on all sides by other countries.

Unlike the country of Indonesia. Indonesia is listed as a country that has fertile agricultural land. Apart from its fertile agricultural land, the State of Indonesia also has abundant and abundant natural resources. Its geographical location is also considered favorable for conducting trade relations, but still Indonesia is still a developing country.

Even though Indonesia has abundant natural resource wealth, several factors have influenced this country to remain trapped in the category of developing countries. The following are several factors that can explain why Indonesia is still facing challenges in achieving developed country status:

- a. Structural challenges: Indonesia faces complex structural challenges, such as limited and uneven infrastructure across the region, significant economic and regional disparities, and a lack of access to basic services such as education, health and clean water. These factors affect inclusive economic growth and lead to sustainable socio-economic inequality.
- b. Problems of corruption and bureaucracy: Corruption and complicated bureaucracy have become obstacles to sustainable economic development in Indonesia. Corruption hinders efficiency and transparency in the use of state resources, discourages foreign investment, and undermines investor confidence. Institutional reforms and better governance are needed to address these issues.
- c. Dependence on the commodity sector: Although natural resources fuel economic growth, over-reliance on commodity sectors such as mining, oil and gas has made Indonesia vulnerable to fluctuations in global market prices. In addition, too much focus on this sector can hinder broader and sustainable economic diversification.
- d. Low investment in research and innovation: Investment in research and innovation is an important factor in driving sustainable economic growth. However, Indonesia

is still experiencing low levels of investment in this sector. Lack of support and incentives for research and innovation, as well as low collaboration between universities, industry and government, has limited technological progress and the creation of added value in various sectors.

- e. Education and skills: Although education is a national priority, challenges remain in terms of equitable access and quality education. The lack of skills that match market needs is also an obstacle in achieving sustainable economic growth.
- f. Climate change and environmental sustainability: Indonesia faces serious challenges in terms of climate change and environmental sustainability. Deforestation, land degradation, and environmental pollution problems have affected natural resources that are important for economic growth. Greater efforts in environmental protection and sustainable resource management are needed to achieve sustainable growth.

Indonesia has abundant natural resources and this should be a source of profit for its people. However, the abundant availability of natural resources has actually become a boomerang for the Indonesian people themselves, because many people have exploited natural resources on a large scale without paying attention to the balance of nature so that it has an impact on environmental damage and triggers problems in other fields.

In addition, the Indonesian people who have succeeded in exploiting natural resources on a large scale, they are not able to manage and use them properly, they do not even have the slightest sense of loss as a result of their actions exceeding these limits. Such an imbalance is the initial trigger why the State of Indonesia remains trapped as a developing country.

2. Role Institutional

Good institutions are one of the keys to a country's economic progress. Most rich countries or developed countries have institutions that are highly professional and committed. On the contrary, many countries are classified as poor because they are laden with corrupt practices by state administrators. Indonesia is no exception. Indonesia has a Corruption Perception Index (CPI) score of 34 on a scale of 0-100 in 2022. This score makes Indonesia the 5th most corrupt country in Southeast Asia.

Poor and developing countries generally have a high level of corruption as indicated by a small Corruption Perceptions Index. The Corruption Perceptions Index issued by Transparency International is based on surveys and reports on how business people and government experts perceive corruption in the public sector. The Corruption Perceptions Index is scaled from 0 to 100. Closer to 0 means the level of corruption is higher, while a corruption index close to 100 means that a country is cleaner from corruption.



Based on the statistical data above, the Corruption Perception Index (IPK) or *Corruption Indonesia's Perception Index* (CPI) has decreased by four points to 34 in 2022 from 38 in 2021. According to the CPI report by Transparency International, Indonesia is ranked 110th out of a total of 180 countries in the world in 2022. Based on this data, Indonesia deserves to be categorized as a corrupt country. On the other hand, several countries that are classified as clean from corrupt practices are Denmark, Canada, Finland, Sweden and Switzerland, while the most corrupt country is Somalia. Conditions that strongly indicate that countries with high levels of corruption are countries that are poor, while those with low levels of corruption are generally included in the group of rich countries.

Countries with low levels of corruption cause them to have sufficient funds to carry out the development process. In addition, development can also be carried out according to the needs of the community. On the other hand, the many corrupt practices can cause a loss of funds that should be used to improve education, health, transportation, infrastructure and other community needs, instead these funds are used

for personal gain by each government official. Thus, corruption has an impact on hampering the creation of people's prosperity.

The practice of corruption in a broader sense is the practice of nepotism, that is, selfishness and that of his family, including in the administration of the economy and state practices. This will make the poor marginalized from economic conditions and the administration of the state will be dominated by people who are not *capable* (do not have skills in their fields) but are close to the authorities.

The facts and cases above are convincing enough to conclude that there is a very high close relationship between institutions and economic development, considering that a country's economic performance is influenced by policies and institutions. But what needs to be considered, institutions must always experience development and change because economic activities are increasingly complex. Institutional changes are needed considering that the process of development and economic development does not automatically create institutional foundations. In this phase, it is possible that the absence of formal institutions will be covered by the existence of informal institutions, but of course this cannot last in the long term.

3. Culture

Factor next influence well-being country is owned culture and embraced the people. Culture in meaning wide covers method view, attitude life and beliefs used by public the. Poor countries with source power nature, however own culture work hard and behave professional push they for become country forward. As for example, the people of South Korea and Japan is loyal people, workers hard, and Work with really. In fact, according to the OECD, South Korea is country with working hours longest. A strong work ethic can lead a country to become a prosperous and developed country. Whereas in Indonesia, the behavior/culture of the people in everyday life is still relatively bad, as evidence that many people are undisciplined in being punctual, undisciplined when working, undisciplined when driving and undisciplined when queuing.

4. Gaps Social and Inequality Economy

High economic inequality can hinder sustainable economic development. When a large proportion of income and wealth is concentrated in a few individuals or groups,

consumption and demand for society as a whole can be constrained. In addition, economic inequality can also generate social tensions and political instability. To achieve sustainable economic development, it is important to reduce social inequalities and increase access to economic opportunities, education and basic services for all people.

5. Change Demographic

Change demographics, like growth fast resident or aging population, got become challenge for growth sustainable economy. Growth fast resident can cause pressure on source power nature, field work, infrastructure, and service public. Temporary that's aging population can produce free social and high economy, like increasing cost maintenance health and retire. Growth sustainable economy need adequate policy for manage change demographic and ensure availability field work, service health and security adequate social.

6. Lack of Investment in Research and Innovation

Investment in research and innovation is the key to sustainable economic development. However, many countries face challenges in increasing investment in research and development, and translating scientific discoveries into impactful innovations. Under-investment in research and innovation can hinder technological progress, productivity and economic competitiveness. Therefore, it is important to promote policies and incentives that support research, development, and collaboration between the public and private sectors.

With the existence of several factors above whose conditions are still underdeveloped, it will certainly have an impact on changes in the conditions and environment of the community so that the existence of institutions that regulate interactions between communities also changes. This change can occur naturally or through government intervention. According to North (2005), institutional change occurs due to interactions between organizations and institutions. Individuals and organizations compete to take advantage of the opportunities presented in existing institutional structures. If organizations see that they can have a better chance in a different

arrangement of rules, of course they will allocate all resources to changing the rules, in the hope that this opportunity has a high success rate.

Based on the development of the CPI trend, it can be seen that the development of Indonesian institutions shows a positive movement. This may be related to the echoes of eradicating corruption and the existence of a credible Corruption Eradication Commission (KPK). For example, in 2010, in absolute terms, Indonesia's institutional development showed an increase from 1.9 in 2002 to 2.8 in 2010 for the 0-10 score range. However, value is still far from an optimal institutional system because it can only reach 28%.

Of course, this result makes people concerned, because the institutional conditions in Indonesia are still very bad. This is a challenge and opportunity for the Indonesian people to be able to create new institutions or complement existing institutions. Reflecting on its close neighbor Indonesia, Singapore is ranked first in institutional development in the world. Indonesia can emulate institutional success in Singapore, because geographically and the age of Indonesia and Singapore are relatively the same, it is possible to transplant institutions from Singapore and of course with the necessary adjustments. Adjustments related to differences in social conditions, politics, and the economic structure of the State of Indonesia.

In addition to the factors previously mentioned, there are several additional factors that may affect Indonesia's status as a developing country and challenges in economic development. Some of these factors involve economic institutions in Indonesia, including:

- a. Economic policies that are not yet optimal: Even though there have been efforts to reform economic policies, sometimes the implemented policies have not fully supported sustainable economic growth. Several fiscal and monetary rules, regulations, and policies may still limit investment, innovation, and growth in more developed sectors.
- b. Unstable legal and regulatory uncertainty: Unstable legal and regulatory uncertainty can hinder investment and business in Indonesia. Frequent policy changes or lack of clarity in the application of regulations can pose a risk to business actors, both local and foreign. Consistent legal certainty and a stable regulatory environment are needed to encourage long-term investment.

- c. Low global competitiveness: Even though Indonesia has great potential, its global competitiveness is still relatively low. Factors such as inadequate infrastructure, complicated bureaucracy, corruption, low quality education and workforce skills, and a lack of innovation and technology, can make it difficult for Indonesia to compete with other developed and developing countries.
- d. Lack of financial inclusion and access to capital: Limited access to capital and financial inclusion can be a barrier to the development of micro, small and medium enterprises (MSMEs) as well as broader economic sectors. Lack of access to finance and lack of affordable and easily accessible financial services can hinder inclusive economic growth.
- e. Economic and social inequality: High economic and social inequality is a complex problem in Indonesia. Income inequality and regional disparities between urban and rural areas can hinder inclusive economic growth. Further efforts are needed to reduce this gap through more equitable redistribution and policies that focus on equitable development.

D. Conclusion

System building effective institutions of course very thing important because own impact as well as great influence for continuity development in one country. Institutions in the state of Indonesia indeed move to positive direction, however the movement rated slow. Movement to positive direction but if other components such as human capital still low, level high corruption and cost relatively to income per capita of course will become inhibitor even destroyer system institutional that alone and this is medium happened in Indonesia.

Role something institutional very needed in the activity process development for increase all infrastructure for welfare life society. In something development in the area role institutional very important existence, cause institutional also become key success in smoothness and walk development the Institutional and development economy own closeness very relationship high, remember performance economy a country influenced by policy and institutional. But necessary attention, institutional must always experience development and change because activity economy the more complex.

Reform institutional Indonesia's economy has challenge and opportunities that can influence sustainable growth. Challenges faced covers complexity bureaucracy, corruption, regional inequality, low quality source power human, and limited infrastructure. However, there is also opportunities that can utilized for push sustainable growth, such as potency source power abundant nature, sector industry thriving manufacturing, investment in infrastructure sustainable, development tourist sustainable, and innovation digital technology.

For realize sustainable growth, necessary done reform institutional involvement collaboration between government, sector private, community civil, and institution international. A number of possible steps taken covers repair regulation and supportive policies growth sustainable, development friendly infrastructure environment, investment in development source power human, eradication corruption, increase participation public, and protection environment.

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