
The Effectiveness of Islamic Banking Regulations on Local Sharia-Based Economic Development in Pari City, Serdang Bedagai

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Abstract

This study examines the effectiveness of Islamic banking regulations in supporting local Sharia-based economic development in Pari City, Serdang Bedagai, North Sumatra. Employing a normative-empirical legal research approach, the study analyzes Islamic banking regulations as positive legal norms while also assessing their implementation and socio-economic impact at the local level. The findings indicate that Indonesia's Islamic banking regulatory framework, grounded in Law No. 21 of 2008 on Sharia Banking and reinforced by policies of the Financial Services Authority (OJK) and Bank Indonesia, normatively reflects Islamic legal values such as justice (*'adl*), trust (*amanah*), and public welfare (*maslahah*). Nevertheless, the effectiveness of these regulations in fostering local Sharia-based economic development remains limited due to low levels of Sharia financial literacy, weak institutional outreach, and inadequate coordination between financial institutions and local governments. The study concludes that enhancing regulatory effectiveness requires not only legal certainty, but also strengthened legal awareness, institutional collaboration, and integration of Islamic banking policies with local economic development strategies to achieve inclusive, equitable, and sustainable regional economic growth.

Keywords: *Islamic banking regulation; Sharia-based economic development; local economic development; regulatory effectiveness; Islamic financial law*

INTRODUCTION

In Islamic teachings, economic activity is not merely oriented toward material gain, but represents a moral responsibility and an act of worship inherent in the role of humankind as *khalifah* (vicegerents) on earth. Consequently, economic conduct in Islam is inseparable from ethical accountability and legal norms that emphasize justice (*'adl*), trustworthiness (*amanah*), and social responsibility, while strictly prohibiting exploitative practices such as *riba* (usury), *gharar* (uncertainty), and *maysir* (gambling) (Chapra, 2016). The Qur'an explicitly prohibits usury in Surah Al-Baqarah (2:275), while affirming the legitimacy of lawful trade, thereby establishing a normative foundation for fair economic exchange. Within this framework, the Islamic economic system aims not only to promote individual prosperity, but also to ensure social justice, equitable wealth distribution, and collective welfare (*maslahah*) (Haneef, 2019).

The global development of Islamic finance reflects a growing demand for economic systems that comply with Sharia principles and ethical values. Islamic banking, as a core pillar of the Sharia economic system, performs a dual function: serving as a financial intermediary and acting as a regulatory instrument for ethical economic transformation. Through Sharia-based financial mechanisms, Islamic banking seeks to translate Islamic legal values into practical economic activities that support social justice and inclusive development (Iqbal &

Mirakhor, 2017). In Indonesia, Islamic banking has evolved into an important component of national economic resilience. As the world's largest Muslim-majority country, Indonesia holds substantial potential to become a global hub for Islamic economics and finance, supported not only by demographic factors but also by a collective commitment to justice, transparency, and social solidarity embedded in the Islamic moral economy (Ascarya, 2020; Antonio, 2022).

In recent years, the Islamic economic sector in Indonesia has shown sustained growth across various domains, including Islamic finance, the halal industry, and Islamic social finance instruments such as *zakat*, *infaq*, *sadaqah*, and *waqf* (ZISWAF). Data from the National Committee for Sharia Economics and Finance indicate that the contribution of Islamic finance to Indonesia's Gross Domestic Product (GDP) increased from 44.13% in 2021 to 46.71% in 2023, with projections suggesting that it may surpass 47.3% by the end of 2024 (KNEKS, 2023; KNEKS, 2024). This growth trajectory indicates that the Islamic economy has transitioned from a complementary subsystem to an integral element of national economic development, highlighting the strategic importance of effective regulatory frameworks in sustaining Sharia-based economic growth.

The effectiveness of Islamic banking regulation in Indonesia is largely determined by the implementation of the legal framework established under Law No. 21 of 2008 on Sharia Banking, along with regulatory policies issued by the Financial Services Authority (OJK) and Bank Indonesia. These regulations are intended to provide legal certainty and institutional support for the development of the Sharia economic ecosystem (Nasution & Faozan, 2022). However, challenges remain, particularly in terms of limited public understanding of Islamic banking, regulatory fragmentation, and weak coordination between financial institutions and local governments. As a result, the effectiveness of regulation must be assessed not only from a normative perspective, but also from its capacity to influence economic behavior and support local Sharia-based economic development. This study therefore examines the relationship between positive legal norms and Islamic legal values as the guiding framework for Islamic banking practices, while evaluating the role of Islamic banking law as an instrument of socio-economic transformation and regional economic justice (Saeed, 2021).

Empirical evidence further demonstrates the growing role of Islamic finance within Indonesia's financial system. By the end of 2024, Islamic banking assets reached IDR 980.3 trillion, representing a year-on-year growth of 9.9%, which exceeded the growth of the conventional banking sector (OJK, 2024). The market share of Islamic banking increased to 7.72%, reflecting rising public confidence and increased utilization of Sharia-compliant financial products, particularly among micro, small, and medium-sized enterprises (MSMEs). In addition, the Islamic capital market experienced significant expansion, with total assets amounting to IDR 8,559.5 trillion by the end of 2024, reflecting an annual growth of 11% (Indonesia Stock Exchange, 2024). The Islamic non-bank financial sector also recorded assets of IDR 387.2 trillion, growing by 20.5%, a rate significantly higher than the national average (BPKH, 2024).

Technological innovation has emerged as a critical factor in enhancing the effectiveness of Islamic banking and accelerating Sharia-based economic development. The expansion of Islamic fintech, halal e-commerce, and blockchain-based financial applications has improved efficiency, transparency, and accessibility across the Islamic financial ecosystem (Khir et al., 2022). Islamic crowdfunding and peer-to-peer (P2P) lending platforms have also expanded access to financing for MSMEs and local entrepreneurs who were previously underserved by conventional financial institutions (Hassan et al., 2023). In regional contexts such as Pari City, Serdang Bedagai Regency, North Sumatra, these innovations hold significant potential to strengthen local Sharia-based economic development. However, the local economy, which is predominantly based on agriculture and small-scale trade, continues to face challenges related to low levels of Sharia financial literacy and limited institutional capacity.

Field observations indicate that many local MSMEs and village officials in Pari City remain unfamiliar with Sharia-compliant financial mechanisms and continue to rely on conventional banking systems (Research Field Notes, 2024). This condition highlights a gap between the existence of Islamic banking regulations and their effective implementation at the local level. Consequently, targeted outreach programs, legal education, and institutional coordination are necessary to enhance the effectiveness of Islamic banking regulation in supporting local Sharia-based economic development. Accordingly, this study focuses on analyzing the effectiveness of Islamic banking regulations in Pari City, Serdang Bedagai, by integrating legal, economic, and technological perspectives. The findings are expected to contribute to a deeper understanding of how Islamic banking law can function as an effective instrument for inclusive, equitable, and sustainable regional economic development, while reinforcing Indonesia's broader vision of ethical and welfare-oriented economic governance grounded in Sharia principles.

METHOD

This study employs a normative-empirical legal research approach, combining doctrinal legal analysis with empirical field data to assess the effectiveness of Islamic banking regulations in supporting local Sharia-based economic development in Pari City, Serdang Bedagai Regency, North Sumatra. The normative dimension focuses on examining Islamic banking regulations as positive legal norms, while the empirical dimension evaluates how these regulations are implemented and perceived at the local level.

The normative legal analysis is conducted through a statutory and conceptual approach. The statutory approach examines relevant legal instruments governing Islamic banking in Indonesia, including Law No. 21 of 2008 on Sharia Banking, regulatory policies issued by the Financial Services Authority (OJK), and monetary guidelines established by Bank Indonesia. This analysis aims to identify the regulatory objectives, principles, and institutional arrangements designed to support the development of the Sharia economic ecosystem. The conceptual approach, meanwhile, draws upon Islamic legal principles and economic doctrines, particularly justice (*'adl*), trustworthiness (*amanah*), and public welfare (*maslahah*), as the normative foundation of Sharia-based economic regulation.

The empirical component of the research adopts a socio-legal perspective to capture the interaction between legal norms and social realities. Primary data are collected through field observations and semi-structured interviews with key stakeholders, including local micro, small, and medium-sized enterprise (MSME) actors, village officials, Islamic banking practitioners, and community representatives in Pari City. These informants are selected purposively to reflect diverse experiences and levels of engagement with Islamic banking services. Field observations are also used to examine patterns of financial behavior, levels of Sharia financial literacy, and the accessibility of Islamic banking products within the local economy (Research Field Notes, 2024).

Secondary data are obtained through library research, consisting of legal texts, scholarly books, peer-reviewed journal articles, official reports, and statistical publications related to Islamic banking, Sharia economics, and regional economic development. Sources include publications from the National Committee for Sharia Economics and Finance (KNEKS), the

Financial Services Authority (OJK), Bank Indonesia, and other relevant institutions. These materials are used to contextualize empirical findings within broader regulatory and economic trends.

Data analysis is conducted using qualitative analytical methods. Normative legal materials are analyzed through interpretative and systematic legal reasoning to assess regulatory coherence, consistency, and alignment with Sharia principles. Empirical data are analyzed descriptively and analytically to identify patterns, challenges, and opportunities related to the implementation of Islamic banking regulations at the local level. The integration of normative and empirical findings enables an evaluation of regulatory effectiveness, particularly in terms of legal awareness, institutional coordination, and economic impact on local communities.

To ensure analytical validity, the study applies data triangulation by comparing findings from legal texts, empirical observations, and stakeholder interviews. This approach enhances the reliability of conclusions regarding the effectiveness of Islamic banking regulation in promoting local Sharia-based economic development. Ultimately, this methodological framework allows the research to provide a comprehensive assessment of how Islamic banking law functions in practice as an instrument of inclusive, equitable, and sustainable regional economic development in Pari City, Serdang Bedagai.

RESULTS AND DISCUSSION

1. Local Resources / Local Wisdom

One of the main potentials of Pari City, Serdang Bedagai Regency, is the availability of local resources, both natural and human, that can be optimized to support legal counseling activities. Physically, this area boasts a relatively stable rural environment, organized communities, and strong social ties among residents. Existing natural resources, such as agricultural land and other natural resources, support the creation of a self-sufficient and cooperative community. This village has an area of approximately 1,000.5 hectares, of which 430 hectares are for agriculture and 7.5 hectares for plantations and consists of 11 hamlets with a population of approximately 7,409 people and 2,050 heads of families.

Boundaries of Kota Pari Village To the north it borders the Strait of Malacca, To the east it borders Cermin Kanan Beach. Also To the south it borders Celawan Village. To the west it borders Sei Ular. In Kota Pari Village, there are very adequate buildings such as the Village Hall, Village Health Post building, Integrated Health Post building, and school building. Kota Pari Village also has strategic road access, as seen from the access road to the tourist area. Kota Pari Village is also a connecting village between Serdang Bedagai Regency and Serdang Bedagai Regency, so it has closer access to Kuala Namu International Airport, but the condition of the road is still far from good. In Kota Pari Village, it is also noted that there are still very good bridges, both connecting hamlets and connecting bridges to neighboring regencies. Access to education and healthcare services is still considered very affordable and close, thus supporting the education and healthcare needs of the Kota Pari Village community. Kota Pari Village has significant agricultural potential, particularly in the processing of seafood and traditional agricultural and livestock products. Furthermore, the village also has marine tourism potential that could be further developed.

1. Potential for Marine Product Processing:

Kota Pari Village has direct access to the Strait of Malacca, so the potential for processing marine products such as fish, shrimp, and other processed products is quite large, such as making shrimp paste from kecepei shrimp, the raw materials of which are directly from marine products.

2. Potential of Traditional Agriculture and Livestock:

The people of Kota Pari Village have an agricultural tradition that has been passed down from generation to generation, including the management of rice fields and farmer and livestock groups. In addition to rice farming, the land in Kota Pari Village is also used for vegetable and secondary crops farming. This can all be seen from several roads in Kota Pari Village, which stretch out fields planted with vegetables and secondary crops. From livestock farming, Kota Pari Village also has a lot of potential, both chicken farming, both laying hens and broilers, ducks, goats and cattle. This potential can be further developed through socialization activities, training, and adequate infrastructure development.

3. Marine Tourism Potential:

Kota Pari Village has several marine tourism attractions, such as Pondok Permai Beach, Woong Rame Beach, Mutiara 88 Beach, Kuala Dewi Indah Beach, Woong Pulo Beach, Perjuangan Beach, and Dua Rasa Beach. Kota Pari Village also offers ecotourism in the form of a honey guava plantation and a pandan coconut nursery.

4. Creative Economy

In addition to agriculture and marine tourism, Kota Pari Village also has the potential to make brown sugar from coconut leaves, shrimp paste from Kecapei shrimp, weaving pandanus mats, and finally, there is a waste house that produces products from processed organic waste such as hand soap, dish soap and Magotfresh.

2. Regulatory Framework of Islamic Banking and Its Orientation toward Local Sharia-Based Economic Development

The regulatory framework of Islamic banking constitutes the fundamental legal architecture that determines how Sharia-based financial institutions operate, interact with society, and contribute to economic development at both national and local levels. In Indonesia, the legal foundation of Islamic banking is primarily anchored in Law No. 21 of 2008 on Sharia Banking, which formally recognizes Islamic banking as an integral component of the national financial system. This law affirms that Islamic banking activities must be conducted in accordance with Sharia principles while simultaneously supporting national economic development based on justice, balance, and public welfare (Law No. 21 of 2008). From this perspective, regulation is not merely intended to ensure institutional compliance and financial stability, but also to orient Islamic banking toward broader socio-economic objectives, including local Sharia-based economic development.

Normatively, Islamic banking regulation reflects a distinctive legal philosophy that differs fundamentally from conventional banking law. While conventional banking regulation is predominantly oriented toward interest-based transactions and capital accumulation, Islamic banking regulation emphasizes ethical accountability, risk-sharing, and the real sector orientation of financial activities. This normative orientation is rooted in Islamic legal principles such as justice (*'adl*), trustworthiness (*amanah*), and public interest (*maslahah*), which serve as the moral and legal foundation of Sharia-based economic activities (Chapra, 2016; Haneef, 2019). Consequently, the regulatory framework of Islamic banking is designed to ensure that financial transactions do not merely generate profit, but also contribute to equitable wealth distribution, social inclusion, and sustainable economic development.

The orientation of Islamic banking regulation toward local economic development becomes particularly evident in provisions that encourage financing for micro, small, and medium-sized

enterprises (MSMEs). Islamic banking law explicitly recognizes the importance of productive economic activities and real sector engagement, which are central characteristics of local economies such as those found in Pari City, Serdang Bedagai. Sharia-based financing instruments such as *mudharabah*, *musyarakah*, and *murabahah* are legally structured to support entrepreneurial activities, trade, and agriculture, sectors that dominate local economic life. Through these mechanisms, regulation seeks to align Islamic banking operations with the economic needs and capacities of local communities, thereby strengthening regional economic resilience and independence (Iqbal & Mirakhor, 2017).

In addition to statutory regulation, the operationalization of Islamic banking law is further shaped by regulatory policies issued by the Financial Services Authority (OJK) and Bank Indonesia. These institutions are entrusted with supervising Islamic financial institutions, issuing technical regulations, and ensuring compliance with both prudential standards and Sharia principles. Regulatory instruments related to risk management, governance, consumer protection, and financial inclusion are intended to enhance institutional credibility and public trust, which are essential for the effective functioning of Islamic banking at the local level (Nasution & Faozan, 2022). The presence of such regulatory oversight underscores that the effectiveness of Islamic banking is inseparable from the quality and coherence of its regulatory environment.

However, the effectiveness of this regulatory framework in orienting Islamic banking toward local Sharia-based economic development cannot be assessed solely through normative legal analysis. It must also be evaluated in terms of how these regulations function in practice, particularly in regions with limited institutional capacity and low levels of Sharia financial literacy. In local contexts such as Pari City, where economic activities are predominantly based on agriculture, small-scale trade, and household enterprises, the practical implementation of Islamic banking regulation faces structural challenges. These include limited access to Islamic banking branches, insufficient outreach programs, and a lack of coordination between Islamic financial institutions and local government agencies responsible for economic development (Ascarya, 2020).

The orientation of Islamic banking regulation toward local economic development also depends heavily on the extent to which legal norms are internalized by economic actors at the grassroots level. Legal effectiveness is not achieved merely through the existence of formal rules, but through their acceptance, understanding, and application within society. Empirical observations indicate that many local entrepreneurs and MSME actors remain unfamiliar with Sharia-compliant financial mechanisms and continue to rely on conventional banking or informal financial arrangements (Research Field Notes, 2024). This situation suggests that regulatory effectiveness is constrained not by the absence of legal norms, but by gaps in legal awareness and institutional dissemination.

From a socio-legal perspective, Islamic banking regulation functions as an instrument of social engineering aimed at shaping economic behavior in accordance with Sharia values. Law No. 21 of 2008 implicitly positions Islamic banking as a vehicle for ethical economic transformation by embedding moral considerations into financial regulation. Nevertheless, without adequate legal education and community engagement, this transformative orientation risks remaining symbolic rather than substantive. Strengthening Sharia legal literacy among local economic actors therefore becomes a crucial component of regulatory effectiveness, particularly in supporting local Sharia-based economic development (Saeed, 2021).

The regulatory framework of Islamic banking also carries an implicit expectation of institutional synergy between financial institutions, regulators, and local governments. Local economic development is inherently multidimensional and cannot be achieved through financial regulation alone. Effective orientation toward Sharia-based local economic development requires integration between Islamic banking policies and local development programs, including MSME empowerment, cooperative development, and rural economic initiatives. In practice, however, such integration remains limited. Regulatory fragmentation and sectoral silos often prevent Islamic banking regulation from fully supporting local development objectives, particularly in peripheral regions (Antonio, 2022).

Despite these challenges, empirical data demonstrate that Islamic banking regulation holds significant potential to contribute to local economic development when effectively implemented. National-level indicators show robust growth in Islamic banking assets, market share, and financial inclusion, suggesting increasing public trust and institutional maturity (OJK, 2024). These macro-level trends provide a supportive regulatory environment that can be leveraged to strengthen local Sharia-based economic development. The challenge lies in translating national regulatory success into tangible local economic outcomes.

Digitalization presents an important opportunity to enhance the orientation of Islamic banking regulation toward local economic development. Regulatory support for Islamic fintech, digital banking, and Sharia-compliant peer-to-peer (P2P) lending platforms has expanded access to financial services beyond traditional branch-based models. For local economies such as Pari City, digital financial services can reduce geographical barriers, lower transaction costs, and increase financial inclusion for MSMEs and rural entrepreneurs (Khir et al., 2022; Hassan et al., 2023). When integrated into the existing regulatory framework, digital innovation can strengthen the effectiveness of Islamic banking regulation in supporting local Sharia-based economic development.

Ultimately, the regulatory framework of Islamic banking reflects a deliberate effort to harmonize legal norms, ethical values, and economic objectives within a Sharia-based financial system. Its orientation toward local economic development is normatively clear, but its practical effectiveness depends on a complex interplay of legal awareness, institutional capacity, regulatory coordination, and socio-economic context. In the case of Pari City, Serdang Bedagai, Islamic banking regulation possesses the legal and moral foundations necessary to support Sharia-based local economic development, yet its full potential has not been realized due to implementation gaps at the local level.

Therefore, strengthening the effectiveness of Islamic banking regulation requires a comprehensive approach that goes beyond formal legal compliance. It necessitates active engagement with local communities, enhanced coordination between Islamic financial institutions and local governments, and sustained efforts to improve Sharia financial literacy. By reinforcing these dimensions, Islamic banking regulation can function more effectively as an instrument of inclusive, equitable, and sustainable local economic development, consistent with the broader vision of Islamic economics as a system grounded in justice, welfare, and moral accountability (*maslahah*).

CONCLUSION

The regulatory framework of Islamic banking in Indonesia, as primarily established under Law No. 21 of 2008 on Sharia Banking and supported by regulatory policies issued by the Financial Services Authority (OJK) and Bank Indonesia, normatively demonstrates a clear orientation toward Sharia-based economic development. This framework embeds Islamic legal values such as justice (*'adl*), trust (*amanah*), and public welfare (*maslahah*) into positive legal norms, positioning Islamic banking not only as a financial intermediary but also as an instrument of socio-economic transformation. In principle, Islamic banking regulation provides adequate legal foundations to support local economic development through inclusive financing mechanisms, real-sector orientation, and ethical financial practices that are particularly relevant for regions dominated by micro, small, and medium-sized enterprises, such as Pari City, Serdang Bedagai.

However, the effectiveness of Islamic banking regulation at the local level remains constrained by practical challenges related to implementation. Limited Sharia financial literacy, weak institutional outreach, and insufficient coordination between Islamic financial institutions and local governments reduce the regulatory framework's capacity to generate tangible economic impacts within local communities. This study concludes that regulatory effectiveness cannot be measured solely by the existence of comprehensive legal norms, but must also be assessed through their social acceptance,

institutional integration, and practical accessibility. Strengthening legal awareness, enhancing institutional synergy, and integrating Islamic banking regulation with local economic development policies are therefore essential steps to ensure that Islamic banking law functions effectively as a driver of inclusive, equitable, and sustainable Sharia-based economic development at the regional level.

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