



DEBT AND INVESTMENT POLICY TOWARDS ISLAMIC ECONOMIC DEVELOPMENT

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ABSTRACT

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The purpose of this study is to examine debt and investment policies on Islamic economic development. In this study, the author uses a descriptive research method which explains in detail the debt and investment policies in Islamic economic development. Meanwhile, to analyze the data using content analysis, which is a method used to draw conclusions from a text. The results of this study indicate that debt can be a pillar of economic development. However, debt is the last alternative used.

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A. INTRODUCTION

One of the major challenges faced by developing countries is the limitation of capital resources. Although many developing countries possess abundant natural resources and human resources, their utilization remains far from optimal. In many cases, these resources are still considered potential resources because they have not been fully explored and empowered to support national economic growth. According to Todaro and Smith (2015), capital formation is one of the primary determinants of economic development because it increases productivity, infrastructure expansion, and industrial growth. Therefore, adequate capital is needed as a catalyst for development so that economic transformation can occur more effectively and sustainably.

Limited capital ownership often becomes an obstacle to economic and infrastructure development. As a result, governments in developing countries tend to

rely on debt policies and investment inflows to finance development projects. Debt is generally used to support strategic sectors such as transportation, education, healthcare, and industrial development. However, excessive dependence on debt can create fiscal instability and increase the burden of debt servicing. The World Bank (2024) reported that developing countries experienced a sharp increase in external debt burdens, where total debt servicing payments reached approximately USD 1.4 trillion in 2023. This condition reduced fiscal space for governments to finance social welfare programs and sustainable development initiatives. In addition, the International Monetary Fund (IMF, 2024) emphasized that rising global interest rates and debt vulnerabilities have weakened the economic resilience of many developing economies.

The impact of limited capital can also be observed in the social sector, particularly healthcare and education. Insufficient financing in healthcare increases the vulnerability of communities to diseases and limits access to medical facilities and technologies. Similarly, limited educational investment reduces the quality of human capital and slows long-term economic productivity. The World Bank (2025) explained that weak investment growth in developing economies continues to hinder infrastructure development and economic transformation, especially in low-income countries. Consequently, economic inequality and poverty remain difficult to overcome in many developing nations.

From the perspective of Islamic economics, debt is permissible as long as it is managed responsibly, transparently, and used for productive purposes that provide public benefit (*maslahah*). Islamic economics prohibits exploitative financial systems based on *riba* (interest) and encourages fair wealth distribution through profit-sharing mechanisms and ethical investment. Chapra (2016) argued that Islamic economic development emphasizes social justice, equitable distribution of wealth, and sustainable economic activities that benefit society as a whole. Therefore, investment policies in Islamic economics are directed toward productive sectors that can improve community welfare rather than speculative activities.

Several contemporary studies have discussed the relationship between debt, investment, and Islamic economic development. Saleem et al. (2021) found that Islamic debt instruments and Islamic equity markets positively contribute to sustainable economic growth because Islamic finance promotes risk-sharing and financial stability. Furthermore, Ahdi and Mu'min (2022) explained that debt policy in Islamic economics

should only be used as an alternative financing instrument after optimizing domestic productive resources and investments. Similarly, Sholikha et al. (2023) emphasized that debt management in Islamic economics must prioritize public welfare and avoid excessive fiscal dependency that may harm future generations. Another study conducted by Kato (2022) revealed that Islamic economic systems are more effective in reducing economic inequality because they discourage wealth concentration through interest-based financial mechanisms.

Despite the growing literature on debt and investment in Islamic economics, several research gaps still exist. Most previous studies discussed debt policy and investment policy separately without comprehensively examining how the integration of both policies affects Islamic economic development. In addition, many studies remain descriptive and normative, while empirical discussions regarding the balance between debt utilization and productive investment strategies are still limited. Previous research also paid less attention to how Islamic principles can be implemented practically in managing debt and investment policies in developing countries facing fiscal constraints and global economic uncertainty.

Therefore, this study aims to analyze the influence of debt and investment policies on Islamic economic development in developing countries. This research is expected to contribute theoretically to the development of Islamic economic literature and practically provide recommendations for policymakers regarding sustainable debt management and productive investment policies based on Islamic economic principles.

B. THEORETICAL FRAMEWORK

Islamic economic development refers to a development process that is not only oriented toward economic growth but also emphasizes justice, welfare distribution, moral values, and sustainability in accordance with Islamic principles. Unlike the conventional economic system, which mainly focuses on profit maximization and material achievement, Islamic economics integrates spiritual and ethical dimensions into economic activities. According to Chapra (2016), Islamic economic development aims to achieve *falah* (prosperity and success) through balanced economic growth, social justice, and equitable wealth distribution. Therefore, development in Islam is not solely measured by increases in income or production but also by the improvement of human welfare and morality.

In Islamic economics, capital plays an essential role in encouraging productive economic activities. Capital is viewed as a trust (amanah) that must be utilized responsibly for the benefit of society. Productive capital allocation can stimulate employment opportunities, industrial expansion, and infrastructure development. Siddiqi (2017) argued that Islamic economic systems encourage productive investment rather than speculative financial activities because wealth circulation is intended to support real economic sectors. Consequently, the availability of sufficient capital becomes a key factor in achieving sustainable Islamic economic development.

Debt policy is one of the important instruments used by governments to finance development activities. In conventional economics, debt is often considered an effective fiscal tool to stimulate economic growth, especially when domestic revenues are insufficient. However, excessive debt accumulation may create long-term fiscal burdens and macroeconomic instability. According to Reinhart and Rogoff (2018), countries with unsustainable debt levels are more vulnerable to economic crises because a significant portion of government revenues must be allocated for debt servicing. This condition may reduce public spending in productive sectors such as education, healthcare, and infrastructure.

From the perspective of Islamic economics, debt is permissible but must comply with ethical and religious principles. Debt should not involve *riba* (interest), uncertainty (*gharar*), or exploitative practices. Instead, debt must be based on justice, transparency, and mutual benefit between parties. Chapra (2016) explained that borrowing in Islam is allowed only for productive and necessary purposes, not for excessive consumption or speculative activities. Therefore, debt policy in Islamic economics should focus on financing activities that contribute to public welfare and long-term economic sustainability.

Islamic debt instruments differ significantly from conventional debt systems. Islamic finance promotes profit-sharing and asset-backed financing mechanisms instead of interest-based lending. Sukuk, for example, is one of the most widely used Islamic financial instruments for infrastructure and development financing. According to Hassan and Lewis (2019), sukuk contributes positively to economic development because it links financing directly to productive assets and reduces speculative financial risks. Moreover, sukuk encourages risk-sharing between investors and issuers, which supports financial stability and sustainable investment growth.

Investment policy is another crucial component of economic development. Investment increases productive capacity, stimulates employment, and improves national income. In developing countries, both domestic and foreign investments are needed to accelerate industrialization and infrastructure expansion. The Harrod-Domar growth theory emphasizes that economic growth depends significantly on savings and investment levels because investment increases capital stock and production capacity (Todaro & Smith, 2015). Therefore, effective investment policies are necessary to enhance economic productivity and competitiveness.

In Islamic economics, investment activities must comply with Sharia principles. Investments should be directed toward halal and productive sectors that provide social and economic benefits. Speculative transactions and investments in prohibited industries such as gambling, alcohol, and usury-based financial institutions are forbidden. According to Iqbal and Mirakhor (2020), Islamic investment systems emphasize ethical financing, risk-sharing, and socially responsible investments that contribute to sustainable development. This approach creates a balance between economic profitability and social responsibility.

The relationship between debt policy and investment policy is closely interconnected in influencing economic development. Excessive debt may discourage investment because governments and private sectors become burdened with repayment obligations and financial uncertainty. Conversely, productive investment financed through ethical and sustainable debt mechanisms can accelerate economic growth. Saleem et al. (2021) found that Islamic financial markets positively affect sustainable economic growth because Islamic financing mechanisms support productive investments and reduce financial volatility. Thus, the effectiveness of debt policy depends largely on how borrowed funds are allocated toward productive economic sectors.

Another important theory related to Islamic economic development is the concept of *maqashid al-shariah*. This concept refers to the primary objectives of Islamic law, which include the protection of religion, life, intellect, wealth, and lineage. Economic policies, including debt and investment policies, should support these objectives by improving public welfare and reducing social inequality. According to Dusuki and Abdullah (2017), Islamic financial policies should prioritize social justice and inclusive economic development rather than focusing solely on profit maximization. Therefore,

the success of Islamic economic development should also be measured by improvements in social welfare and equitable wealth distribution.

Furthermore, sustainable development theory is highly relevant to Islamic economic principles. Sustainable development emphasizes meeting present economic needs without compromising the ability of future generations to fulfill their own needs. Islamic economics supports sustainability through responsible resource management, prohibition of exploitation, and encouragement of social responsibility. According to Ahmed (2021), Islamic finance has strong potential to support sustainable development goals because it promotes ethical investments, environmental responsibility, and social inclusion. Consequently, debt and investment policies based on Islamic principles can become strategic instruments for achieving long-term sustainable economic development.

Based on these theoretical explanations, this study uses Islamic economic development theory, debt policy theory, investment theory, and the concept of *maqashid al-shariah* as the primary analytical framework. These theories are used to analyze how debt and investment policies influence economic development from the perspective of Islamic economics. The framework assumes that sustainable and ethical debt management combined with productive Islamic investment policies can enhance economic growth, social welfare, and financial stability in developing countries.

C. METHOD

This study employs a qualitative research approach with a literature study method to analyze the influence of debt and investment policies on Islamic economic development. A qualitative approach is used because this research seeks to understand concepts, theories, and policy perspectives related to debt and investment within the framework of Islamic economics. According to Creswell (2018), qualitative research is appropriate for exploring and understanding social and economic phenomena through interpretation and contextual analysis. Therefore, this approach enables researchers to examine Islamic economic principles comprehensively and critically.

The research design used in this study is descriptive-analytical. The descriptive method aims to explain the concepts of debt policy, investment policy, and Islamic economic development systematically, while the analytical method is used to evaluate the relationship between these variables based on Islamic economic principles and empirical findings. Sugiyono (2020) explained that descriptive-analytical research

focuses on describing existing phenomena and analyzing relationships between variables using theoretical and empirical evidence. Through this design, the study provides an in-depth explanation regarding the role of debt and investment policies in supporting sustainable Islamic economic development.

This study uses secondary data obtained from scientific journal articles, books, conference proceedings, government reports, and publications from international institutions such as the World Bank, International Monetary Fund (IMF), and Islamic Development Bank (IsDB). The data collection technique applied is documentation, which involves collecting and reviewing written materials relevant to the research topic. According to Arikunto (2019), documentation techniques are commonly used in qualitative research because they provide systematic access to both historical and contemporary data sources. The literature used in this research mainly consists of publications from the last ten years to ensure the relevance and accuracy of the analysis.

The data analysis technique used in this study is qualitative content analysis. The researcher identifies, classifies, compares, and interprets information obtained from various literature sources related to debt policy, investment policy, and Islamic economic development. According to Miles, Huberman, and Saldaña (2019), qualitative data analysis involves data reduction, data display, and conclusion drawing to produce meaningful interpretations. To strengthen the validity of the findings, this study applies source triangulation by comparing information from different references, institutions, and previous studies so that the analysis becomes more objective and credible.

This study is based on the assumption that debt and investment policies significantly influence Islamic economic development. Debt policy is analyzed in terms of sustainability, productivity, and compliance with Islamic principles, while investment policy is examined based on its contribution to economic growth, social welfare, and ethical financing. The concept of *maqashid al-shariah* is also used as an analytical perspective to evaluate whether these policies support public welfare and social justice. Therefore, the findings of this study are expected to contribute theoretically to Islamic economic literature and practically provide recommendations for policymakers regarding sustainable debt management and productive investment strategies based on Islamic economic principles.

D. FINDINGS AND DISCUSSION

Findings

1. The Concept of Debt in Islam

The findings of this study indicate that debt in Islam is fundamentally permitted as a form of mutual assistance and social responsibility. Debt, known as *dayn*, refers to an obligation that must be repaid by the debtor to the creditor. Huda (2016) explained that debt in Islamic law is categorized as *al-māl al-hukmi*, where ownership remains legally attached to the lender even though the asset is temporarily used by the borrower. In addition, Islam recognizes *al-qardh* as a loan mechanism provided without expecting additional benefits or interest (Yusuf, 2014).

The study also finds that Islamic teachings strongly prohibit *riba* in debt transactions. Debt repayment must only involve the principal amount unless additional payment is voluntarily given without prior agreement (Alamsyah et al., 2020). Furthermore, Islamic principles require debt agreements to be transparent, documented, and based on the intention to repay obligations responsibly (Syahnaz, 2009). These principles show that debt in Islam is not merely an economic activity but also a moral and social responsibility.

2. National Debt in Islamic Perspective

The findings reveal that national debt is widely used by governments as a fiscal instrument to finance development programs, infrastructure, education, and healthcare. According to Law Number 1 of 2004 concerning State Treasury, state debt refers to government obligations that must be repaid in monetary terms. Indonesia's foreign debt mainly comes from institutions such as the World Bank, Asian Development Bank (ADB), Islamic Development Bank (IDB), and Japan.

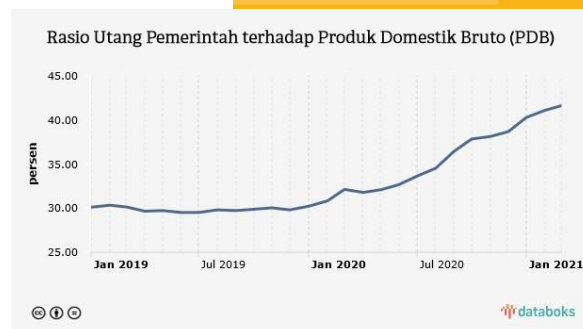
This study also finds two major perspectives regarding state debt in Islamic economics. The first perspective rejects excessive debt because it may lead to dependency and *riba*-based financial systems (Muhajirin, 2017). Meanwhile, the second perspective allows debt if it is used productively for national development and public welfare. Data from the Ministry of Finance show that Indonesia allocates most debt financing toward productive sectors such as infrastructure, education, healthcare, and renewable energy development.

Pro Debt (external financing)	Counter debt (external financing)
Yes throughout form And mechanism according to sharia	Cannot close the budget deficit with foreign debt
Background : The concept and historical fact that cooperation with other parties in a business is permitted, even encouraged. Forms of cooperation in Islam such as murabahah, mudharabah, musyarakah can be developed as external financing, and these forms are also more... towards flow creating equity.	Background : The tendency is towards factual and preventive, where the involvement of Islamic countries in foreign debt will certainly come into contact with usury.

3. Impact, Risks, and Dangers of Debt

The findings indicate that government debt has both positive and negative impacts on economic development. Positive impacts include maintaining economic growth, financing infrastructure projects, increasing employment opportunities, and supporting poverty alleviation programs. Debt also helps governments continue strategic development programs when domestic revenues are insufficient.

However, the study also identifies several risks associated with excessive debt. Increasing debt levels may weaken the rupiah exchange rate, increase refinancing risks, and create long-term fiscal burdens. Junaedi (2018) explained that debt can negatively affect economic growth when it is not managed productively and efficiently. In addition, dependency on foreign debt may reduce economic independence and increase vulnerability to global financial instability.



Source: kemenkeu.go.id

4. Investment in Islamic Economic Perspective

The findings show that investment is highly encouraged in Islamic economics because it supports economic growth and social welfare. Islamic investment must comply with Sharia principles by avoiding riba, maysir, gharar, and prohibited business sectors (Pardiansyah, 2017). Investments should be directed toward halal and productive sectors that provide benefits to society.

Furthermore, the study finds that Islamic investment emphasizes ethical values, justice, and equitable wealth distribution. Investment activities must be conducted voluntarily and based on mutual consent. Islamic investment systems also promote profit-sharing mechanisms such as mudharabah and musyarakah, which encourage fairness and shared responsibility between investors and business managers.

Discussion

The findings demonstrate that debt in Islam is permitted as long as it fulfills ethical and Sharia principles. Debt is viewed as a mechanism of social cooperation and mutual assistance rather than exploitation. This supports Chapra's (2016) argument that Islamic economics promotes justice, compassion, and social welfare in economic transactions. The prohibition of *riba* indicates that Islamic debt systems aim to prevent unfair advantages and financial oppression commonly associated with interest-based lending systems.

The discussion also highlights that national debt can become both an opportunity and a challenge for economic development. On one hand, debt provides governments with financial resources to support infrastructure development and public services. On the other hand, excessive debt dependency may threaten fiscal sustainability and economic sovereignty. This finding aligns with Reinhart and Rogoff (2018), who argued that high debt levels increase economic vulnerability and financial instability. Therefore, debt management must prioritize productive spending and long-term economic benefits.

From the Islamic perspective, state debt is considered acceptable when it is used for productive sectors and public welfare. The allocation of Indonesia's debt toward infrastructure, education, and healthcare reflects the Islamic principle of *maslahah* (public benefit). However, Islamic economics emphasizes that debt should remain a secondary option after optimizing domestic resources and productive investments. This confirms Muhajirin's (2017) view that Islamic economic systems encourage financial independence and discourage excessive dependency on external financing.

The findings regarding the risks of debt indicate that unsustainable debt may create macroeconomic instability, weaken exchange rates, and increase repayment burdens for future generations. Islamic economics therefore promotes alternative financing mechanisms based on risk-sharing and ethical investment. Financing systems such as *musyarakah* and *mudharabah* provide solutions that avoid *riba* while encouraging fairness between capital providers and project managers. These systems also strengthen financial stability because risks and profits are shared proportionally.

The discussion further shows that investment plays a strategic role in Islamic economic development. Islamic investment principles encourage productive

economic activities while maintaining ethical values and social responsibility. Unlike speculative financial systems, Islamic investments are closely linked to real economic sectors such as infrastructure, agriculture, healthcare, and education. This supports the argument of Iqbal and Mirakhor (2020) that Islamic finance contributes to sustainable economic growth through ethical and asset-backed financing mechanisms.

Finally, the integration of sustainable debt management and Islamic investment policies can support long-term economic development. Islamic economics emphasizes balanced economic growth that combines productivity, justice, and social welfare. Therefore, governments should prioritize productive investments, minimize dependence on interest-based debt, and strengthen Islamic financing instruments to achieve sustainable and inclusive economic development.

E. CONCLUSION

Debt and investment policies play an important role in supporting economic development, particularly in developing countries that experience limitations in capital resources. Based on the findings of this study, debt in Islamic economics is permissible as long as it is implemented according to Sharia principles, free from *riba*, and directed toward productive and beneficial purposes. Debt is viewed not only as a financial instrument but also as a form of social responsibility and mutual assistance that must prioritize justice, transparency, and accountability.

The study also shows that national debt can provide positive contributions to economic development when it is allocated to productive sectors such as infrastructure, healthcare, education, and energy development. Debt financing may help governments maintain economic growth, reduce poverty, and improve public welfare. However, excessive dependence on debt can create fiscal vulnerability, increase refinancing risks, weaken economic sovereignty, and burden future generations. Therefore, effective debt management is necessary to maintain economic stability and sustainability.

Furthermore, investment in Islamic economics is strongly encouraged because it promotes productive economic activities, equitable wealth distribution, and social welfare. Islamic investment principles emphasize ethical transactions, risk-sharing mechanisms, and the avoidance of prohibited elements such as *riba*, *gharar*, and

maysir. Financing systems such as mudharabah and musyarakah offer alternative solutions that support fair and sustainable economic development.

In conclusion, the integration of sustainable debt policies and productive Islamic investment strategies can contribute significantly to Islamic economic development. Governments should optimize domestic resources, strengthen Islamic financial instruments, and ensure that debt and investment policies are directed toward productive sectors that provide long-term benefits for society. By implementing Islamic economic principles, economic development can be achieved in a more just, stable, and sustainable manner.

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