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Implementation of Sharia Investment in Islamic Banking: Analysis of Principles, Contracts, and Challenges in Strengthening the Islamic Financial System

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Abstract: *The development of Islamic banking in Indonesia has shown significant growth, with Islamic investment serving as a key pillar in strengthening the Sharia-based financial system. However, its implementation still faces challenges, including low Islamic financial literacy, limited product innovation, and the need to strengthen governance and risk management. This study aims to analyze the implementation of Islamic investment in Islamic banking by examining its principles, contracts, and challenges in supporting Sharia economic growth. The research employs a qualitative approach using a literature study method by reviewing and analyzing relevant scientific sources related to Islamic investment and banking practices. The results indicate that Islamic investment based on mudharabah, musyarakah, murabahah, and ijarah contracts plays an important role in improving Islamic banking performance, particularly when supported by technological innovation and adequate regulatory frameworks. In conclusion, strengthening financial literacy, enhancing product innovation, and improving governance are essential strategies to optimize Islamic investment and promote the sustainability of Islamic banking in supporting national economic development.*

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Introduction

The development of the Islamic finance industry in Indonesia has shown significant growth in recent years, with Islamic investment being a key element supporting this growth. Islamic investment not only serves as a means of channeling funds but also embodies Islamic values such as fairness, balance, transparency, andavoidusury, gharar, and maysir (Putri & Rohani, 2023). These principles serve as the moral and legal basis for Islamic banking in developing safe and sharia-compliant investment products, while simultaneously having a macroeconomic impact by strengthening the Islamic financial ecosystem (Anjani & Cupian, 2025). In practice, Islamic banks utilize various contracts such as mudharabah, musyarakah (profit-sharing), murabahah, and ijarah (sale/lease) to build halal portfolios with measurable risks (Harahap & Siregar, 2022). Technological innovation further strengthens this implementation through verification, risk management, and service efficiency (Hasibuan & Oktaviana, 2023).

The main phenomenon in the implementation of sharia-compliant investments in Islamic banking is rapid growth accompanied by strategic challenges. Despite its significant potential, this practice remains hampered by low public sharia-compliant financial literacy, limited product diversification, and weaknesses in governance and risk management (Wahyudi et al., 2024). Globally, similar issues have emerged in other developing countries, where sharia-compliant financial inclusion is influenced by the quality of the banking system and regulations (Fathihani et al., 2025). Furthermore, the green economy trend is driving the need for sustainable investments such as green sukuk, which require infrastructure and human resource readiness (Arifudin et al., 2024). This phenomenon reflects the dynamic in which sharia-compliant innovation intersects with the demands of modern adaptation.

The urgency of strengthening the implementation of sharia investment in Islamic banking is increasingly pressing given its role in national economic stability and growth. Challenges such as low literacy and weak risk management can hamper the optimization of the Islamic financial ecosystem, especially amidst demands for a green economy and global inclusion (Wahyudi et al., 2024; Fathihani et al., 2025). Without intervention, Islamic banking risks falling behind conventional banking, necessitating strengthening mechanisms to support sustainable growth and the effective implementation of Islamic values (Arifudin et al., 2024). This research is urgently needed to provide strategic recommendations for regulators and practitioners.

Although the literature discusses the principles and contracts of Islamic investment (Putri & Rohani, 2023; Harahap & Siregar, 2022), a gap remains in the in-depth analysis of strategic implementation in Indonesian Islamic banking, particularly technology integration and green economy adaptation (Hasibuan & Oktaviana, 2023; Arifudin et al., 2024). Previous studies have focused more on macro or descriptive aspects (Anjani & Cupian, 2025; Wahyudi et al., 2024), lacking exploration of operational challenges such as product diversification and risk governance in the local context. This gap creates a need for empirical research to fill the gap between Islamic theory and actual practice (Fathihani et al., 2025).

Based on the background, phenomena, urgency, and gaps, the formulation of the

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research problem is how to strengthen the mechanism for implementing sharia investment to support the growth of the sharia economy?

Research Methods

This research was conducted using a qualitative approach through a literature review method. All data were obtained through an in-depth analysis of fifteen predetermined scientific sources, covering studies on Islamic investment, the development of Islamic banking, investment contracts, financial inclusion, and the challenges of implementing Islamic investment at both the national and global levels. The literature review method was chosen to gain a comprehensive understanding of how Islamic investment principles, contracts, and mechanisms are applied in the Islamic banking environment, as described in various recent studies (Anjani & Cupian, 2025; Harahap & Siregar, 2022; Yaqin, 2024).

The research process begins with identifying relevant references, followed by reviewing the content of each article to identify patterns, concepts, and key findings directly related to the research focus. The analysis also encompasses an understanding of technological developments, the application of green investment, the influence of financial literacy, and the dynamics of the Islamic capital market, which are closely related to Islamic investment practices in banking institutions (Hasibuan & Oktaviana, 2023; Marwan et al., 2023; Syarif et al., 2025).

The next step is to synthesize all the information obtained to form a coherent and in-depth analytical framework. This synthesis process includes combining various perspectives related to the structure of Islamic banking, the growth patterns of the Islamic market, and the institutional challenges faced in Islamic investment practices, as outlined in previous research (Kelvin & Haryanto, 2023; Mubarok et al., 2025; Wahyudi et al., 2024). The final results of this series of analyses are systematically compiled to present a comprehensive picture of how Islamic investment is implemented in the Islamic banking system and the factors that influence it.

Results and Discussion

The application of sharia-compliant investments in Islamic banking has shown significant development in line with the growing demand for financial instruments based on Islamic principles. Islamic banks implement various forms of investment oriented towards partnership, transparency, and fairness through the use of contracts that govern the relationship between fund owners and business managers. Mudharabah and musyarakah contracts remain key pillars of investment activities, as both allow for proportional profit sharing according to the agreement and involve shared risks shared by all parties. This characteristic of profit-sharing investments is reflected in accounting studies in Islamic banks, which emphasize the importance of recording and reporting in accordance with the principles of Islamic accountability (Harahap & Siregar, 2022). The implementation of these contracts plays a role in building an investment portfolio that is not only halal according to Islamic law but also makes a significant contribution to the sustainability of Islamic banking.

Research results indicate that sharia investment activities are strongly linked to the

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growth of the sharia banking industry, both in the form of fundraising and financing disbursement. Empirical analysis of the interaction of third-party funds, investment, and financing shows that all three are closely related in driving stability in the halal economic sector, as demonstrated in research on regional economic development in North Sumatra (Sugianto et al., 2021). Sharia banking performance is also influenced by capital structure and evolving technological innovation. The application of digital technology in sharia banking operations has been shown to increase efficiency, expand service access, and strengthen competitiveness in facing the dynamics of the modern financial system (Hasibuan & Oktaviana, 2023). Furthermore, a carefully managed capital structure can impact the financing performance and profitability of sharia banks (Kelvin & Haryanto, 2023), so bank investments must consider the balance between risk and potential returns.

The role of Islamic investment in supporting economic growth is also evident in the contribution of Islamic banks through green investment and sustainability-based financing. This approach is reinforced by research highlighting the role of Islamic banks in driving economic growth through green financing in accordance with Islamic principles (Marwan et al., 2023). Furthermore, green sukuk (Islamic bonds) are also beginning to show significant potential in supporting sustainable development in Indonesia, despite challenges such as limited literacy and the need for strengthened regulations (Arifudin et al., 2024). The existence of Islamic sukuk and stocks also contributes to strengthening the modern Islamic financial sector and demonstrates the strategic role of Islamic capital market instruments in expanding investment opportunities (Syarif et al., 2025).

On the other hand, increasing Islamic financial inclusion is closely linked to the effectiveness of implementing Islamic investment in banking. Research on financial inclusion shows that the development of Islamic banking, Islamic capital markets, and public literacy levels significantly contribute to national economic growth (Anjani & Cupian, 2025). Islamic financial inclusion is also one of the primary goals of developing the Islamic financial industry in various developing countries, including Indonesia. Literature reviews indicate that Islamic banking plays a crucial role in increasing public access to inclusive and equitable financial services (Fathihani et al., 2025). With this increased access, the potential for Islamic investment becomes more widely available and can reach various levels of society.

Research also shows that the development of Islamic banking is inseparable from various structural and operational challenges. These challenges include low public literacy regarding Islamic investment products, a lack of investment instrument diversity, and the need for increased product innovation. A study on the business potential of Islamic banking in 2024 indicates that Islamic banks still need to strengthen their supervisory systems, enhance digital innovation, and expand partnerships to improve the quality of investment products (Wahyudi et al., 2024). Furthermore, an analysis of the market share of Islamic banks following spin-offs, conversions, and mergers reveals a continued need for strategies to strengthen institutional structures to compete optimally with conventional banks (Mubarok et al., 2025). Challenges related to stability and profitability also continue to be a concern, as explained in research highlighting the importance of strengthening governance and risk mitigation in maintaining the sustainability of Islamic financial institutions (Mubarok et al., 2024).

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Overall, the discussion results indicate that the implementation of sharia-compliant investment in Islamic banking is supported by a combination of sharia principles, proper contract management, technological innovation, and good governance. Regulatory support and improved financial literacy are crucial factors in expanding inclusion and strengthening the role of sharia-compliant investment in national economic development. Therefore, sharia-compliant investment offers significant potential for continued growth through strengthening instruments, digital innovation, and optimizing the role of sharia-compliant banks as the driving force of the sharia-compliant financial sector.

Conclusion and Recommendation

This study shows that sharia investment plays a crucial role in supporting the performance and sustainability of sharia banking through implementation.based onSharia principles such as fairness, transparency, and the prohibition of usury, gharar, and maysir, which form the foundation of halal investment activities using mudharabah, musyarakah, murabahah, and ijarah contracts as safe and sharia-compliant financing instruments. Despite its significant potential, its implementation still faces serious obstacles in the form of unequal financial literacy, limited product innovation, regulatory challenges, digitalization, and dependence on quality governance, supervision of sharia compliance, and adaptation to modern economic dynamics. Therefore, successful implementation requires the integration of sharia principles, strengthening investment instruments, and increasing the operational capacity of sharia banking.

Based on the findings of this study, ongoing efforts are needed from various parties to strengthen the implementation of sharia investment in Islamic banking. Banking institutions must increase internal capacity through strengthening risk management, investment product innovation, and responsive governance to technology and market needs; regulators play a role in providing a conducive policy framework along with a massive sharia financial literacy program; while public education needs to be expanded to increase investor confidence and participation, supported by further research exploring new instruments and the effectiveness of their implementation in various financial institutions, so that sharia investment can contribute more to the strengthening and growth of the Islamic banking sector in the future.

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