

Islamic Agility Investment (IAI) Approach in Financial Inclusion

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Abstract:

The concept of Islamic Agility Investment (IAI) is a development of strategic agility diversification investment (SADI) in the area of benevolent funds for Islamic financial institutions. The aim is to open up financial inclusion in financing contracts such as mudharabah and musyarakah. SADI is derived from the two basic theories of RBT and portfolios which through the Qur'anic approach receive treatment in the form of morality, kindness, and empathy. While the methodology used is to mix the derivations of each of these basic theories in producing a slick IAI proposition. As a result, IAI becomes a tool in non-financial measurement that is used to assess the morals, trust, and seriousness of customers in obtaining soft working capital in benevolent funds.

Keywords:

Financial inclusion, Islamic Agility Investment, and financial performance

JEL: M00, M40, M48

INTRODUCTION

Mudharabah and musyarakah financing has a basic risk in the form of losses that must be borne by Islamic financial institutions from the investments they make and can trigger financial inclusion (Ali, 2019). The provisions explain that financing for both (mudharabah and musyarakah) is not included in the contract of debt, capital, or profits, but in the form of business run by the customer or mudharib (Allen et al., 2016). The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) in formulating Shari'a Standards No. 12 (Sharika (Musharaka) and Modern Corporations) and No. 13 (Mudharabah) as part of the financial risk borne by the banking sector (shahibul mall). Thus the financing carried out by Islamic banks in the future will experience financial inclusion problems. Data for the last 10 years on Baitul Maal wa Tamwil (BMT) financing throughout Indonesia show inconsistencies:

Table 1.

Islamic Bank Financing in Indonesia
(in trillion rupiah)

No	Year	Magnitude	Increase Decrease	Percentage
1.	2013	386,14	-	-
2.	2014	458,16	72,02	-
3.	2015	526,40	68,24	-3,78
4.	2016	610,03	83,63	1,54
5.	2017	671,72	61,69	-2,19
6.	2018	739,80	68,08	6,39
7.	2019	781,91	42,11	-2,60
8.	2020	811,60	29,69	-1,24
9.	2021	895,52	83,92	5,42
10.	2022	963,45	67,93	-1,60

Table 1 shows that the financing by BMT does not fluctuate, which shows indications of financial inclusion. Other evidence is shown in research (Ayyagari and Beck, 2015) which reveals the success of BMTs in channeling funds to the community only relies on funding (murabahah, salam, and istishna). Bongomin et al., (2018), the opportunities for BMT in financing to produce financial performance are very large by opening financial inclusion to non-financial assessments. As we all know, collateral is an inseparable aspect as a financing requirement. Chen and Divanbeigi (2019) assess that there are other aspects besides financial aspects that can be developed to assess financing feasibility. One that has been developed (Comparato, 2015) is the aspect of assessing personal characteristics. Which will later affect the approach used in providing financing.

Corrado (2015) assesses that efforts to address financial inclusion depend on how determined challenge facing FI is able to increase the benefits of FI and the realization of FI through the approach used. The biggest challenge in financing is the inclusion of collateral which is an obligation as the main requirement. To be able to solve these challenges requires an approach in the form of a strategy to assess non-financial aspects (Kim et al., 2015). Non-interest activities can be an integration that can be carried out by financial institutions in increasing profitability (Kimmitt and Munoz, 2017). Namely by developing investment financing on investment expansion, risk tolerance, and problem empathy agility (Sahay et al, 2015). So that by diversifying into broader financial investments in the expansion of financial activities, it will be able to spread risk fluctuatingly (Shetty and Hans, 2018).

Three basic elements are needed in carrying out investment diversification, namely: physical ability, emotional ability and intellectual ability (Yi, et al., 2018). Physical ability is the ability to carry out tasks and must be supported by agile (dexterity) (Basu, 2008). Dexterity is needed in carrying out approaches, especially those related to strategic agility (Kosack et al., 2021). Where this strategic agility is needed in responding to the organization's quick action on the choice of strategy with data innovation and product development (Arokodare and Asikhia, 2020). So that the approach to the speed of organizational response in diversifying investments can open up financial inclusion which can improve the financial performance of Islamic financial institutions.

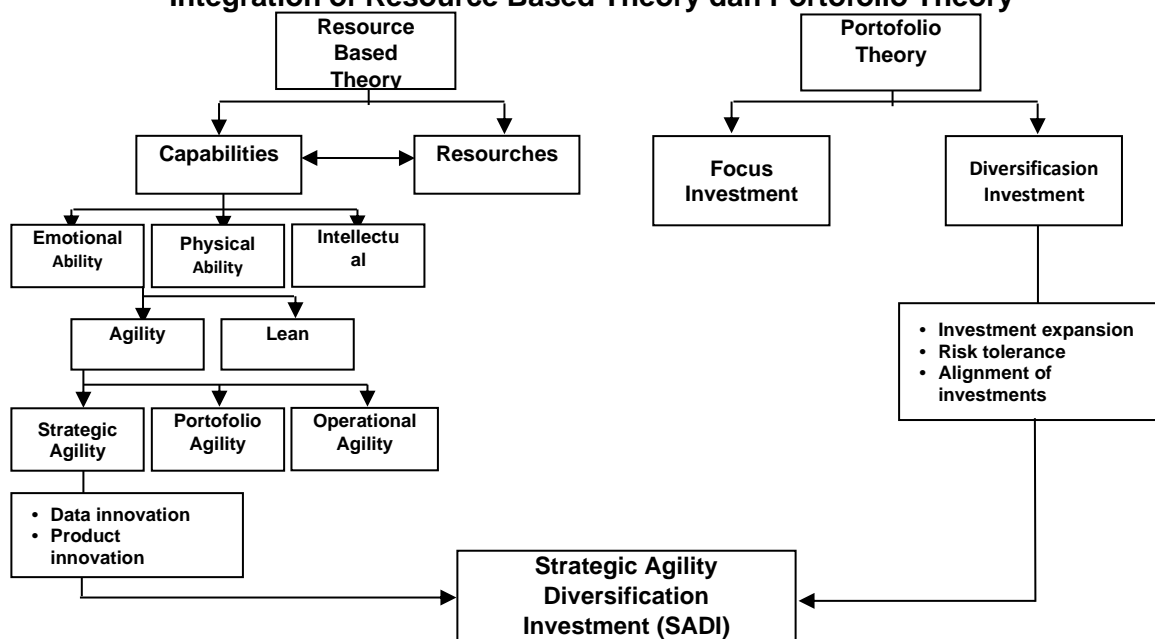
Islamic agility investment is developed to open up financial inclusion that occurs in financing. Islamic financial institutions can diversify investments in financing by terminating challenge facing FI in non-financial data development, benefits of FI in working capital development, and realization of FI in financing arrangements. Through this new approach, Islamic financial institutions can open access for "exempt" parties to obtain financing without having to include collateral as the main requirement. So that this can affect the financial performance of Islamic financial institutions which have been shackled by the risks they bear.

LITERATURE REVIEW

Strategic Agility Diversification Investment

Based on the study of resource-based theory and portfolio theory, observations can lead to the application of strategic agility in building diversified investments. The implementation of strategic agility is carried out through product innovation and information innovation in solving investment diversification problems (integration of product and information expansion, risk tolerance innovation, and investment alignment innovation (Ristianawati et al., 2021)..

Figure 1.
Integration of Resource Based Theory dan Portofolio Theory



Based on the integration of the dimensions of resource-based theory and portfolio theory, propositions can be made to build organizational performance. The proposition is Strategic Agility Diversification Investment (SADI):

“Efforts to expand products and information so as to increase innovation towards risk tolerance and investment alignment, as an effort to reduce restrictions on access to financial services in order to improve the organization's financial performance.”

Figure 2
Intellectual Capital Stimulation Financial Accountability Proposition

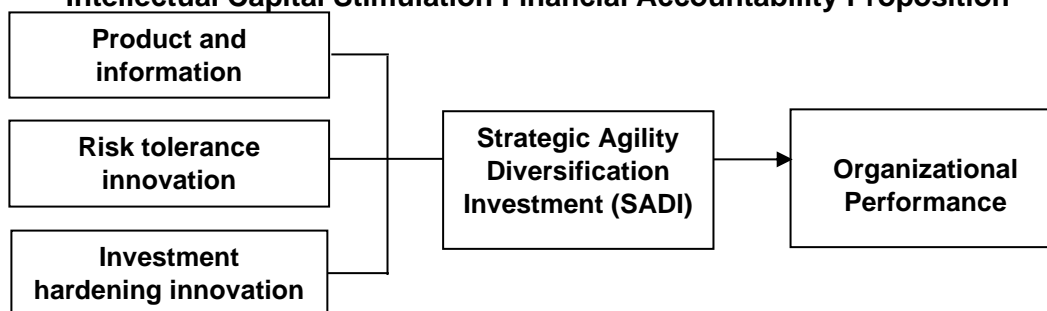


Figure 2 shows the relationship between Islamic financial inclusion as a basis for implementing an agility strategy in its efforts to obtain investment to improve an organization's financial performance. On this concept, Islam has a proposition on the potential benefits and a series of models in alternative approaches. The mechanism is directed at the goal of improving financial regulatory infrastructure that can support the environment for financial inclusion (Mohieldin et al., 2011). Islamic banking is considered as a way for effective financial inclusion (Ben Naceur et al., 2015). The principles of profit-and-loss sharing and Islamic redistribution networks in Islamic finance which are wholly underutilized by many Muslim countries should be used to provide a comprehensive framework for effective financial institutions (Mirakhor & Iqbal, 2012). The development of distribution mechanisms can serve as an appropriate foundation for increasing the application of financial engineering that can promote inventive ways to accommodate risk sharing and as a redistributive tool with the aim of improving financial performance that stimulates economic development (Mirakhor & Iqbal, 2012). The use of banking products according to Sharia is very limited (Demirguc-Kunt et al.,

2014). Despite the relationship and growth of the financial sector between Islamic financial services and financial inclusion in many Muslim countries, a large number of companies and individuals are still very minimal to access (Zulkhibri, 2016). This is what will then be related to Islamic financial inclusion related to Challenges Facing FI, Benefits of FI, and Realization of FI.

Islamic Values

Based on theoretical studies regarding physical abilities and portfolios can be derived in the form of Islamic Agility Investment (IAI). According to Colquitt et al., (2009), physical ability indicates lean and agility as its constituent dimensions. Meanwhile, according to Templeboer, et al (2016) agility is divided into three dimensions: 1) strategic agility; 2) agility portfolio; and 3) operational agility. According to Kasali (2005), strategic agility is implemented through product innovation and information innovation. Then this strategic agility is included in the portfolio (Markowitz, 1952) to solve investment diversification problems (integration of product and information expansion, risk tolerance innovation, and empathy agility problem innovation) (Fahmi, 2018).

To be able to apply dexterity to Baitul Maal Wa Tamwil (BMT) operations, the leaders' approaches must be explicitly aimed at the basis of realizing benefit. This is in accordance with the guidelines described in Q.S Al Anbiya 107

وَمَا أَرْسَلْنَاكَ إِلَّا رَحْمَةً لِّلْعَالَمِينَ

And We did not send you (Muhammad) but to (become) a mercy to all the worlds

The verse is interpreted as a leader must have a character like Rasulullah SAW, namely as a mercy to all creatures, this is based on the characteristics of the noble nature of Rasulullah SAW in the form of a sense of commitment and determination to provide guidance to humans and save them from the punishment of Allah. This was then addressed by the Baitul Maal Wa Tamwil (BMT) leader through dexterity in approaches with reference to three things that can form the basis for carrying out organizational operations, namely in the form of:

1. Ahlak (Based on Q.S Al Baqarah 168)

يَا أَيُّهَا النَّاسُ كُلُوا مِمَّا فِي الْأَرْضِ حَلَالًا طَيِّبًا وَلَا تَتَّبِعُوا خُطُوَاتِ الشَّيْطَانِ إِنَّهُ لَكُمْ عَدُوٌّ مُّبِينٌ

oh man! Eat from (food) that is lawful and good that is found on earth, and do not follow the steps of Satan. Truly, satan is a real enemy to you.

2. Ihsan (Based on Q.S Al Baqarah 195)

وَأَنْفِقُوا فِي سَبِيلِ اللَّهِ وَلَا تُلْقُوا بِأَيْدِيكُمْ إِلَى التَّهْلُكَةِ وَأَحْسِنُوا إِنَّ اللَّهَ يُحِبُّ الْمُحْسِنِينَ

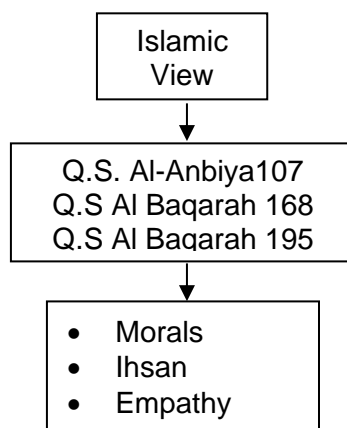
195. And spend (your wealth) in the way of Allah, and do not throw (yourself) into destruction with your own hands, and do good. Indeed, Allah loves those who do good.

3. Empathy (Based on Q.S Al Maidah 2)

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَحِلُّوا شَعَائِرَ اللَّهِ وَلَا الشَّهْرَ الْحَرَامَ وَلَا الْهَدْيَ وَلَا الْقَلَائِدَ وَلَا أُمِّيَّتَ الْبَيْتِ الْحَرَامِ يَبْتَغُونَ فَضْلًا مِّن رَّبِّهِمْ وَرِضْوَانًا وَإِذَا حَلَلْتُمْ فَاصْطَادُوا وَلَا يَجْرِمَنَّكُمْ شَنَا نُ قَوْمٍ أَن صَدَّقْتُم مِّنَ الْمَسْجِدِ الْحَرَامِ أَن تَعْتَدُوا وَتَعَاوَنُوا عَلَى الْبِرِّ وَالتَّقْوَىٰ وَلَا تَعَاوَنُوا عَلَى الْإِثْمِ وَالْعُدْوَانِ وَاتَّقُوا اللَّهَ إِنَّ اللَّهَ شَدِيدُ الْعِقَابِ

O you who believe! Do not violate the symbols of the sanctity of Allah, and do not (break the honor) of the forbidden months, do not (disturb) hadyu (sacrificial animals) and qala'id (marked sacrificial animals), and do not (also) disturbing people who visit Baitulharam; they seek the grace and pleasure of their Lord. But when you have finished ihram, then you may hunt. Do not let (your) hatred of a people because they hinder you from the Masjidil Haram, pushing you to do excess (to them). And help you in (doing) virtue and piety, and do not help each other in sin and enmity. Fear Allah, indeed, Allah is very severe in punishment.

Figure 3
Islamic Value Proposition



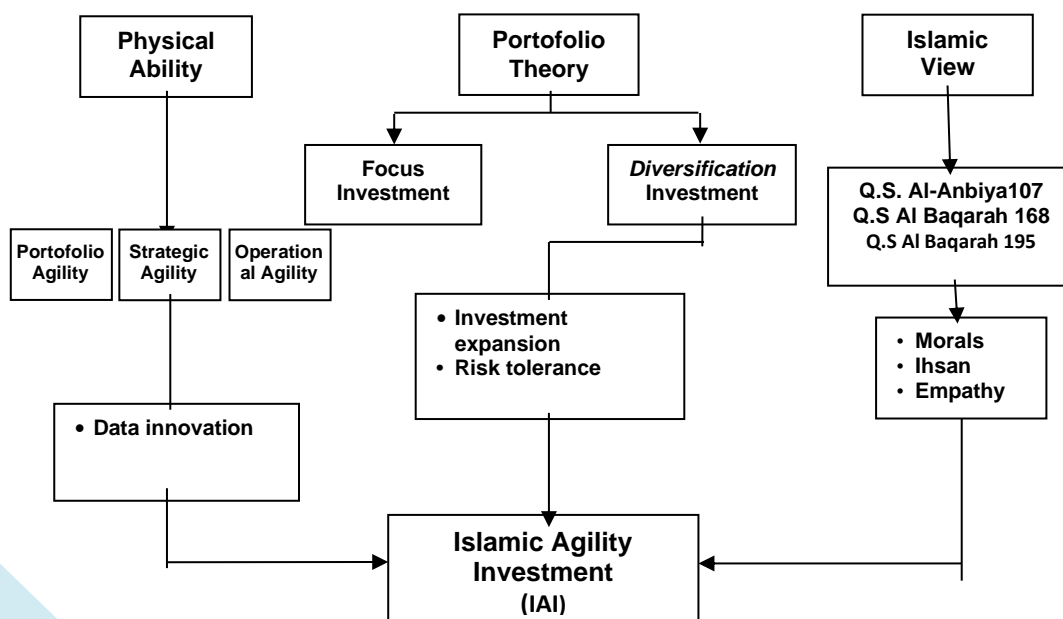
METHODOLOGY

The conceptual approach used in this study is to combine two basic theoretical derivations which are combined into propositions (Hartono et al., 2019). The first basic theory used is Strategic Agility Diversification Investment (SADI). While the second theoretical basis is Islamic values, the two are combined in producing an Islamic Agility Investment (IAI) proposition.

RESULT & DISCUSSION

The merger between Strategic Agility Diversification Investment (SADI) and Islamic values was carried out by leaders in Islamic financial institutions in developing an approach to the form of financing. Dexterity in the form of benefit encourages dexterity in the concept of financing with reference to morality, kindness, and empathy. Good morals can encourage financing to run well, ihsan can guarantee the parties involved to be trusted by each other, and empathy shows mutual help among others. Thus, the combination of Islamic agility investment paths with the basis disclosed in QS Al-Baqarah verse 275 forms a novelty in the form of Islamic Agility Investment (IAI), as shown in Figure 4.

Gambar 4
Integrasi Physical Ability, Portofolio Theory, dan Islamic View



In deriving the novelty in the form of Islamic agility investment (IAI), there are three sources of theory used. Physical Ability is assigned to aim at an agility strategy for investment diversification based on an Islamic view of obtaining the value of benefits at the cost of financing, as set out in table 2 below.

Tabel 2
Islamic Agility Investment Integration

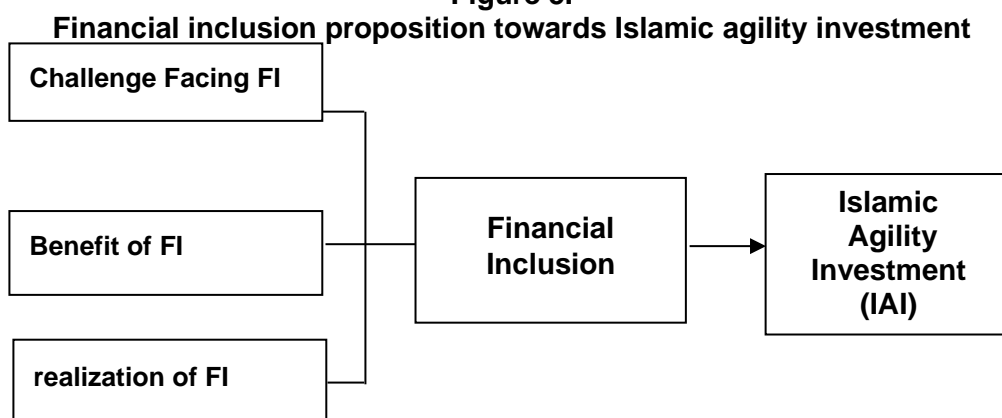
Investment	Agility	Islamic	Islamic Agility Investment
Risk Tolerance Investment Alignment	Data innovation agility	Morals Courtesy Empathy	Agility to align financial portfolios with mudharib morals Agility in prioritizing policy funding sources. Agility to solve mudharib problems with empathy.

With the formulation of integration to form Islamic agility investment (IAI), this research analyzes the inherent risk of financial inclusion inherent in mudharabah and musyarakah financing. This risk is part of the loss that must be borne by the Baitul Mall Tanwil (BMT) or Islamic banks. In accordance with the rules set by the National Sharia Council (DSN) regarding losses incurred on financing, it is fully the responsibility of Islamic banks. Exceptions in carrying out financing cause BMTs to be unable to optimize their sharia financial performance. Financial inclusion emphasizes the challenge facing of FI in the form of collateral participation, which in this case will be used as collateral for financing which is of course very burdensome for certain groups in obtaining financing schemes. So that the benefits of FI or the realization of FI cannot be realized by BMT or Islamic banks.

Islamic financial institutions must be able to work on solving the challenges facing FI in new approaches by not only considering financial aspects. Opening channels for customers who do not have the ability to use collateral as collateral can encourage BMTs to benefit from FI and the realization of FI in Islamic agility investment (IAI). Funding which was originally measured through the mudharib's financial ability in the participation of collateral as collateral, with encouragement to complete the IFI, the IAI that was formed was in the form of an assessment on the non-financial element. From the explanation regarding the determination of financial inclusion (FI) through the challenges facing of FI, the benefits of FI, and the realization of FI, propositions regarding the determination of financial inclusion in forming Islamic Agility Investment (IAI) can be formulated.

"Proposition 1: Financial inclusion is an exception to access to financing financial services that determines challenges, benefits, realization in the form of non-financial agility".

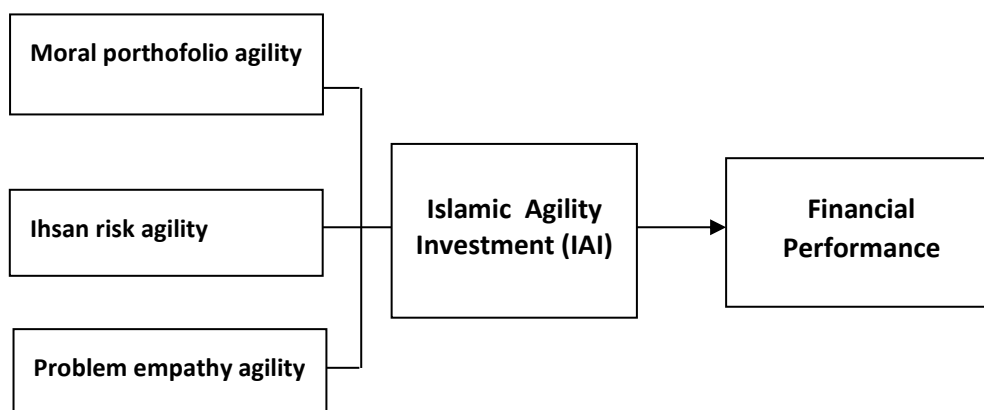
Figure 5.



The proposal for the variable Islamic agility investment (IAI) is based on the aspect of termination carried out by challenge facing FI, benefits of FI, and realization of FI for the development of non-financial data. So that financial inclusion can be reduced by placing it as an approach in financing investment diversification. This approach brings a change, especially in data and products as a center of analysis in developing new strategies in the Islamic banking system (Kasali, 2005). When the banking sector has completed innovations in financing big data (mudharabah and musyarakah), then this can become a realm for investment development. Especially with regard to investment risk, which takes the form of financial losses that must be borne by Islamic banking (Fahmi, 2018). Based on the integration of the dimensions of physical ability and portfolio theory, especially on the non-financial approach used in renovating financing investments, as well as Islamic views, a second proposition can be developed to build an organization's financial performance.

"Proposition 2: Islamic agility investment (IAI) which is a non-financial assessment of the form of dexterity in the ahlak portfolio, ihsan risk, and problem empathy. The increased IAI will realize Islamic financial performance".

Figure 6.
Islamic Agility Investment Proposition Against Financial Performance



There are three approaches raised by IAI as an effort to open up financial inclusion that occurs in the financing of Islamic financial institutions:

1. Moral portfolio agility is the dexterity in aligning the financial portfolio with the ahlak mudarib, which is related to the assessment of non-financial aspects in the form of morals. So apart from the collateral aspect which is the main requirement for obtaining financing from Islamic financial institutions, the assessment can also be seen from personality. This aspect looks more at how good the customer is, and has commendable behavior, and the data can be collected through testimonies or statements obtained from people around him about his daily behavior.

2. Ihsan risk agility, is the agility to prioritize sources of benevolent funds, namely an assessment made on the form of trust in one's moral exploration to determine the amount of financing to be received or mandated to him. In Islamic financial institutions, there are two functions that can be carried out, as a business unit and as a social unit. Business unit sources of funds come from working capital, while for the development of Ihsan risk agility at IAI, funds come from benevolent funds. The benevolent fund is part of an Islamic bank account with a source of funds from receiving interest and fines. So that the use of funds for social activities needs to pay attention to goodwill or credibility.

3. The problem of empathy agility is the agility of solving mudharib problems by rescheduling, reconstructing, reconditioning, which is a form of evaluation of the mudharib's efforts in carrying out financial mandates. Financial problems that occur in running the business can be assessed whether the financing can be continued or not.

Apart from being related to the development of a non-financial aspect approach (IAI) as an effort to open financing financial inclusion. Financial institutions can also develop

termination of challenges facing FI, benefits of FI, and realization of FI as financial assessments to create Islamic financial performance. Guarantees in the form of collateral are intended as bonds so that financing carried out by Islamic financial institutions takes place consistently. This is what then gives rise to financial assessments carried out through the form of guarantees for financing. Thus, this guarantee can trigger performance for customers in running a business. So that this can create Islamic financial performance both for customers and for Islamic financial institutions in the form of profit sharing.

Financial inclusion can occur in financing contracts (*mudharabah* and *musyarakah*) where losses are borne by the *shahibul maal* or sharia financial institutions. This is due to the nature of the risk involved in this financing, where the loss of the customer's business is borne by the Islamic financial institution. Therefore, in reducing the value of financial inclusion, challenge facing, benefits of FI, and realization of FI are used through two approaches: the financial approach and the non-financial approach. The financial approach to financial inclusion uses collateral to avoid financing losses that must be borne by Islamic financial institutions to improve financial performance.

Meanwhile, on the non-financial aspect, it produces an IAI path that connects financial inclusion with Islamic financial performance. Ethical aspects can be a factor in developing financial inclusion in a personal approach (Mohieldin et al., 2011). Islamic agility investment (IAI) is an approach that is carried out on investment diversification financing on the development of non-financial aspects. So that the determination of financial inclusion will be translated into Moral portfolio agility, Ihsan risk agility, and empathy agility problems. Development operations trigger new assessments in an effort to improve financial performance (Ben Naceur et al., 2015). Mirakhor & Iqbal (2012) revealed that with flexibility a new approach to financial inclusion can realize a better system. Thus financial inclusion is not a problem, but an opportunity needed by Islamic banking (Mirakhor & Iqbal, 2012).

From the two propositions that have been presented above, it can be used as a basic theoretical model in the figure below. The first proposition forms financial performance that helps business continuity for people who are "excluded" (Demirguc-Kunt et al., 2014). This relationship can be seen from the development of assessments from financial to non-financial aspects (Zulkhibri, 2016). This is what later became the basis for IAI's development in finding a solution to addressing Financial inclusion (FI) problems to achieve financial performance. Next, the financial aspect is still a requirement for Islamic financial institutions in issuing financing as a response to borne risks. This is done to avoid the risk of financing in a deeper form.

Figure 7
Basic Theoretical Model of Islamic Agility Investment



CONCLUSION

The concept of Islamic Agility Investment (IAI) was developed based on the study of investment diversification agility strategy (SADI). Islamic values such as morals, *ihsan*, and empathy are included in the agile form brought by the leaders of Islamic financial institutions in opening up space for financial inclusion issues. The moral portfolio is carried out to measure the good behavior of the *mudharib*, so that they have the right to get access to finance in the form of financing. *Ikhsan* risk is in the form of financing provided to *mudharib* through policy funds, so it does not interfere with the working capital of the financial institution. While the empathetic solution, namely by referring to the *mudharib*'s basic morals, financing can continue to be provided as long as the *mudharib* is not financially strong. This is what can then open up space for Islamic financial institutions to address financial inclusion issues and improve their financial performance.

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