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The Effect of the Maqashid Sharia Index on Financial Sustainability: Evidence from Islamic Rural Bank in Central Java

Muhammad Naufal Majid*, Purbayu Budi Santoso, Putri Rizka Citaningati
Universitas Diponegoro, Indonesia
**Corresponding Author: muhnaufalmajid17@gmail.com*

Abstract:
The study aims to provide empirical evidence on the effect of the Maqashid Sharia Index (MSI) on the Financial Sustainability Ratio (FSR) at Islamic Rural Banks in Central Java from 2020 to 2023. This study employs panel data regression and purposive sampling techniques across 11 Islamic Rural Banks. The analysis conducted in this study used Chow, Hausman, and Lagrange Multiplier tests to determine the best model. The results of this study indicate that individual education (tahdhib al-fard) and welfare (jalb al-maslahah) have a significant positive effect on FSR, while upholding justice (iqamah al-adl) has no significant effect. The financial sustainability is also determined by social and spiritual responsibility. This key finding emphasizes that the non-financial dimensions of Sharia are a crucial driver of the sustainability of Sharia entities. The implications of this study underscore the need for management and regulators of Islamic Rural Banks to strengthen education, training, and zakat distribution, prioritizing investments in human resource development and zakat-based welfare activities to improve the financial sustainability of Islamic Rural Banks in the future. The limitations of this study include a sample scope limited to 11 Islamic Rural Banks in Central Java.

Keywords: Financial Sustainability Ratio, Islamic Rural Bank, Maqashid Shariah Index, Sharia Enterprise Theory

JEL Classification Code: G21, G32, Z12

1. Introduction

Data from Worldometers for 2023 show that Indonesia is the world's fourth most populous country, with a population of 277.7 million. The Royal Islamic Strategic Studies Center (RISSC) estimates that by 2023, Indonesia's Muslim population will reach 240.62 million, indicating significant potential for the growth of the Islamic finance sector (The Royal Islamic Strategic Studies Centre, 2023). Islamic banking leads Indonesia's Islamic finance sector and comprises Islamic Commercial Banks, Islamic Business Units, and Islamic Rural Banks. Islamic Rural Banks play a vital role in society, particularly in small markets and microenterprises, and emphasize personal and family relationships (Otoritas Jasa Keuangan, 2022). The number of Islamic Rural Banks across Indonesia increased from 163 to 173 during the 2020-2023 period, with Central Java Province having the highest number. In addition to the increase in numbers, Islamic Rural Banks' assets also grew rapidly during the 2020-2023 period, despite the COVID-19 pandemic (Otoritas Jasa Keuangan, 2024). Unlike Islamic Commercial Banks and Islamic Business Units, which focus on urban segments, Islamic Rural Banks operate at the grassroots level, serving MSMEs that carry high financial risk and have a direct social impact (Otoritas Jasa Keuangan, 2022). Islamic Rural Banks have unique operational characteristics that distinguish them from Islamic Commercial Banks and Islamic Business Units. The financial sustainability of Islamic Commercial Banks and Islamic Business Units cannot be generalized to Islamic Rural Banks, making them distinct research subjects. Therefore, financial sustainability is a critical indicator, which is why this study focuses on Islamic Rural Banks.

Islamic Rural Banks, as part of Islamic banking, must operate on a going concern basis and conduct their business sustainably (Pangestu & Hati, 2024). Financial sustainability is crucial for Islamic banks to address internal and external financial risks and challenges (Hayati et al., 2020). The Financial Services Authority (OJK) has introduced regulations implementing the Financial Sustainability Ratio, requiring Islamic Rural Banks to publish and develop sustainable financial ratios (Rohmah et al., 2021). However, the sustainability of Islamic Rural Banks is challenged, as reflected in fluctuations in Non-Performing Financing (NPF). The NPF at Islamic Rural Banks in 2021 was 6.95%, decreased to 5.91% in 2022, and increased to 6.49% in 2023 (Otoritas Jasa Keuangan, 2024). NPF fluctuations indicate that conventional measurements are inadequate for describing the risks and social functions of Islamic Rural Banks, thereby requiring comprehensive measures to ensure financial sustainability (Jannati et al., 2023). Operational financial sustainability is measured by comparing total revenue to total costs; a bank is considered financially sustainable only if this ratio exceeds 100% (Rianasari & Pangestuti, 2016). For Islamic Rural Banks in Central Java during the 2020–2023 period, total revenue was barely sufficient to cover—or in some cases, failed to cover—total operating costs. This less-than-ideal state of financial sustainability is evident not only in fluctuations in the NPF but also in the inability of several Islamic Rural Banks to generate revenue sufficient to cover their operating costs consistently.

Islamic Rural Banks have unique characteristics that differ from those of conventional rural banks, both in theory and in practice (Lubis et al., 2023). Islamic Rural Banks' measurements have thus far been limited to conventional approaches, including the CAMELS (Capital, Assets, Management, Earnings, Liquidity, Sensitivity of Market Risk) and Economic Value Added (EVA) frameworks (Rohmah et al., 2021). Evaluations of Islamic banking have so far only focused on profit, ignoring the obligation to fulfill social functions (Bahri et al., 2022). As a result, CAMELS and EVA ignore the non-financial side and provide unsatisfactory results (Amalia, 2020). Consequently, Islamic Rural Banks are measured using conventional variables, even though Islamic entities are required to consistently and comprehensively comply with Sharia law. Islamic Rural Banks are measured not only from a financial perspective but also from the perspective of maqashid sharia, the original purpose of establishing Islamic Rural Banks (Fadhila & Christiana, 2020).

This study employs the maqashid Sharia Index (MSI) approach developed by Mustafa Omar Mohammed on Abu Zahrah's concept. The MSI is operationalized for Islamic banking performance as three main Sharia objectives: Individual education (*tahdhib al-fard*), upholding justice (*iqamah al-adl*), and welfare (*jalb al-maslahah*) (Sholihin et al., 2022). The MSI has the advantage of being multidimensional and comprehensive. Unlike the CAMELS system, the MSI can address spiritual and social responsibility. This makes it an adaptable evaluation tool suited to the characteristics of Islamic Rural Banks. The MSI does not only focus on the economic sphere but also on the management of Islamic financial services in accordance with sharia principles (Lubis et al., 2023). This is because education strengthens human capital (Kalbarini, 2018), equity ensures that benefits are distributed fairly, thereby increasing stakeholder trust (Wahyuni & Abdullah, 2021), and welfare achieved through zakat distribution can build social legitimacy (Meutia, 2021). Theoretically, these three factors can reduce financing risks and enhance long-term financial sustainability.

Previous research on the MSI of financial sustainability has yielded inconsistent results. Studies conducted by Novia (2020) and Ulfa & Suazhari (2022) found that the MSI has a significant positive effect on financial sustainability. Similarly, studies by Ayuningtyas et al. (2020) and (Rohmah et al., 2021) indicate that the individual education (*tahdhib al-fard*) and welfare (*jalb al-maslahah*) have a positive effect on financial sustainability. Studies by Cakhyaneu et al. (2020), Darmawati (2022), and Wiyawan et al. (2024) found that the individual education (*tahdhib al-fard*) does not contribute to financial sustainability. Regarding upholding justice (*iqamah al-adl*), Ayuningtyas et al. (2020) and Wiyawan et al. (2024) reported a negative influence, whereas Rohmah et al. (2021) and Darmawati (2022) reported a positive influence on financial sustainability. Welfare (*jalb al-maslahah*) has a positive influence on financial sustainability, as investigated by Ayuningtyas et al. (2020), Rohmah et al. (2021), and Darmawati, (2022). Meanwhile, the works of Praptiningsih et al. (2022) and Wiyawan et al. (2024) indicate that the welfare (*jalb al-maslahah*) has no effect on financial sustainability. The inconsistency in research findings indicates a research gap. This is reinforced by the fact that research focusing on sustainability performance during the 2020-2023 crisis remains limited (Hanafi et al., 2022).

Based on previous research, two major research gaps remain unaddressed. Firstly, empirical gaps or contradictions in research findings suggest that the relationship between Sharia compliance and financial sustainability is likely to be significantly influenced by the characteristics of Islamic Rural Banks. Second, the majority of studies on the MSI focus on Commercial Islamic Banks and Islamic Business Units, whilst research examining the relationship between the MSI and the Financial Sustainability Ratio (FSR) in Islamic Rural Banks remains relatively limited, even though Islamic Rural Banks possess local micro-level characteristics with unique operational risks.

This study not only replicates the measurement tools but also analyses the role of the MSI in Sharia microfinance entities within the region with the highest concentration of Islamic Rural Banks amidst the COVID-19 crisis. This study is expected to make a meaningful contribution to the development of MSI literature in the context of Islamic Rural Banks. Therefore, this study aims to provide empirical support for how the MSI influences the financial sustainability ratios of Islamic Rural Banks in Central Java during 2020-2023, and to examine whether individual education, upholding justice, and welfare make significant positive contributions. The research data were processed in stages, including selecting the best model, testing classical assumptions, and conducting hypothesis tests to validate the relationships among variables.

2. Literature Review

The theory of Sharia-compliant enterprise represents a further evolution of corporate theory. This theory is fundamentally based on the principle that God is the supreme source of authority and that stakeholders are His stewards. The concept of ownership lies with God, whilst humans are granted the right as his vicegerents on earth to manage and utilize resources (Meutia, 2021). Within the context of Sharia Business Theory, all economic activities must be accompanied by vertical accountability to God and horizontal accountability toward fellow human beings and the surrounding environment (Kalbarini, 2018).

This theory states that responsibility must be distributed equally amongst all stakeholders (those who contribute directly, such as employees and creditors), indirect stakeholders (those who do not contribute directly), and the natural environment (Meutia, 2021). Accountability before God encompasses the optimal utilization of resources in accordance with sharia principles. Accountability towards fellow human beings encompasses the provision of welfare, including to those who do not contribute directly to the company (Abdullah & Nugraha, 2020). The concept of the Sharia Enterprise Theory emphasizes that sharia-compliant banks must take into account the interests of the wider community. This is in line with social motives and an orientation towards the interests of stakeholders and shareholders. This perspective is based on providing welfare for all creatures and their environment through social instruments such as *zakat*, infaq, sadaqah, and waqf (Handayani Soedarso, 2013). Therefore, financial sustainability within the Sharia Enterprise Theory can be achieved when a sharia enterprise balances profitability with social and spiritual responsibilities (Wahyuni & Abdullah, 2021).

The essence of the maqashid sharia is benefit-oriented, which serves as the primary foundation for the formulation of laws within Islamic financial institutions (Nursidin, 2012). Generally, the main objectives of maqashid sharia are to purify the soul, uphold justice, and realize the public interest (Paryadi, 2021). Maqashid Sharia comprises five fundamental objectives in Islamic law: *din* (religion), *aql* (reason), *nash* (scripture), the soul, and *maal* (wealth). According to Al-Syatibi, maqashid sharia constitutes the public interest, which within the context of *fiqh muamalah*, serves as a crucial criterion in determining *ijtihad* (Monawer et al., 2015). The performance of Islamic Rural Banks, based on the maqashid sharia, can be measured across three dimensions, as outlined in the concept of maqashid sharia developed by Mohammed (2008). The first dimension is individual education (*tahdhib al-fard*), which emphasizes the extent to which Islamic Rural Banks are committed to improving the skills and expertise of both employees and customers. The second dimension, upholding justice (*iqamah al-adl*), is measured by the integrity of every economic transaction and by fairness in the profit-sharing mechanism between the Islamic Rural Bank and its customers. The third dimension, welfare (*jalb al-mashlahah*), is closely related to Islamic Rural Bank's participation in achieving profitability and distributing zakat, whereby the bank's role is not oriented solely toward business aspects but also toward achieving the public good (Cakhyaneu et al., 2020); (Sholihin et al., 2022).

The MSI has the potential to address the shortcomings of conventional measurement, which focuses solely on financial performance assessment, whereas Islamic banking is multidimensional (Deza & Sofyani, 2022). The FSR is an indicator of a bank's ability to cover all its operational costs with the income generated to support its business continuity (going concern) (Rohmah et al., 2021). The FSR is an indicator of banking sustainability, with a standard that must exceed 100% for a bank to remain sustainable (Almaida & Djuwarsa, 2023).

The relationship between the MSI and the FSR can be analyzed by examining Islamic Rural Banks' ability to integrate economic and social objectives. The dimension of individual education (*tahdhib al-fard*) contributes to improving the quality of human resources and enhancing customers' financial literacy, which ultimately improves the quality of financing and the operational efficiency of Islamic Rural Banks. Upholding justice (*iqamah al-adl*) can promote transparency within Islamic Rural Banks, thereby fostering honest and fair transactions in every business deal. Meanwhile, the pursuit of the public good (*jalb al-mashlahah*) demonstrates Islamic Rural Banks' ability to generate sustainable profits and distribute wealth to the community through *zakat*. Therefore, the higher the MSI score, the greater the opportunity for Islamic Rural Banks to maintain their long-term financial sustainability (Reza & Violita, 2018); (Rohmah et al., 2021); (Ayuningtyas et al., 2020); (Darmawati, 2022).

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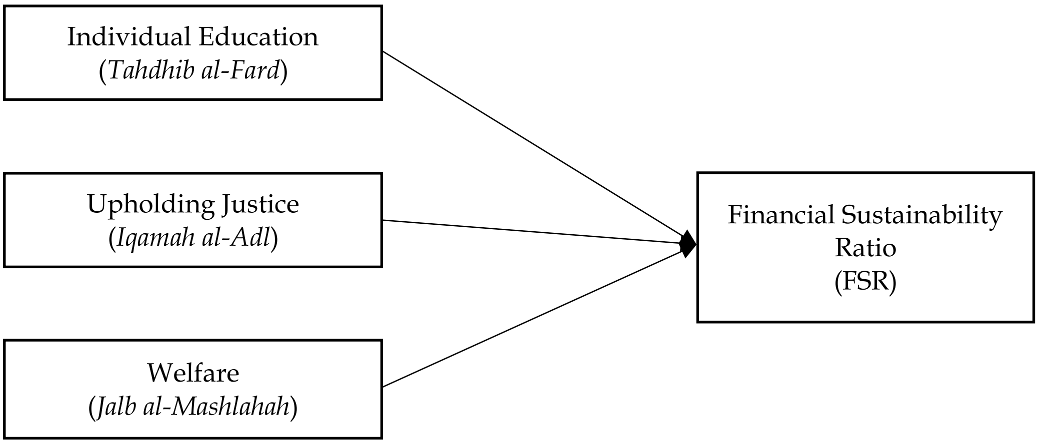

Figure 1: Research Framework

Hypothesis

H1: Individuals educating (*tahdhib al-fard*) has a positive and significant effect on the FSR at Islamic Rural Banks in Central Java in 2020-2023.
H2: Upholding justice (*iqamah al-adl)* has a significant effect on the FSR at Islamic Rural Banks in Central Java in 2020-2023.
H3: Welfare (*jalb-al mashlahah*) positively and significantly influences the FSR at Islamic Rural Banks in Central Java in 2020-2023.

3. Research Methods

This study employs a quantitative approach with a causal-associative design. It utilizes secondary data sourced from the financial statements of Rural Banks published on the OJK website. The sampling technique applied is purposive sampling with the following criteria: (1) Islamic Rural Banks are officially registered with the OJK, (2) publish annual financial reports, and (3) provide MSI indicator data. Based on these criteria, a sample of 11 Islamic Rural Banks in Central Java was obtained for the period 2020-2023. This study covers the 2020–2023 period because it spans the pandemic and the post-pandemic recovery. Meanwhile, research on the performance of Islamic banking during that period remains limited, even though the application of sharia principles in accordance with the maqashid sharia can drive economic recovery (Hanafi et al., 2022).

This study employs a panel data regression model designed to analyze the influence of individual education (X1), upholding justice (X2), and welfare (X3) on the Financial Sustainability Ratio (Y). These three dimensions are measured using the Simple Additive Weighting (SAW) method based on 10 financial ratios calculated using their respective formulas (Sholihin et al., 2022).

Table 1: Measurement of the MSI

Variable	Element	Calculation Formula
Financial Sustainability Ratio	Financial Sustainability Ratio (Praptiningsih et al., 2022)	$\frac{Total\ Revenue}{Total\ Expenses}$
Individual Education (*Tahdhib al-Fard*)	Education Costs (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Education\ Costs}{Total\ Costs}$
	Training Costs (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Training\ Costs}{Total\ Costs}$
	Research Costs (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Research\ Costs}{Total\ Costs}$
	Publication Costs (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Publication\ Costs}{Total\ Costs}$
Upholding Justice (*Iqamah al-Adl*)	Fair Profit (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{PER}{Net\ or\ Interest\ Income}$
	Functional Distribution (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Mudharabah\ \&\ Musyaraka}{Total\ Investment}$
	Interest-Free Products (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Interest\ Free\ Products}{Total\ Income}$
Welfare (*Jalb al-Maslahah*)	Profit Ratio (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Net\ Income}{Total\ Assets}$
	Personal Income (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Zakat}{Total\ Assets}$
	Ratio Sector Investment (Antonio et al., 2012); (Mohammed et al., 2016)	$\frac{Real\ sector\ investment}{Total\ Investment}$

To calculate the indicator values for each variable in the MSI, the average of each component is first computed, then weighted using the SAW method. SAW is a method used to assess each Islamic bank's achievement of the MSI by summing weighted ratios in accordance with the provisions established by Islamic banking experts (Antonio et al., 2012). The weighting of each variable and ratio element is based on research conducted by Mohammed et al. (2016), specifically assigning a weight of 30% to the individual education variable, 41% to upholding justice, and 29% to welfare, with each element also having its own weight (Mohammed et al., 2016). The code value for each variable is calculated by multiplying the variable weight (W), the ratio element weight (E), and the calculated ratio value (R), as follows: IK = W × E × R (Amalia, 2020).

$$FSR = \propto \; + \beta_1 EDUCATION + \; \beta_2 \, JUSTICE + \; \beta_3 \, WELFARE + e$$

Before estimating the panel data model, this study must go through several stages, namely regression model estimation, model selection, testing of classical assumptions, and model interpretation. This study employs three estimation approaches to identify the appropriate regression model: the Common Effects Model (CEM), the Fixed Effects Model (FEM), and the Random Effects Model (REM) (Basuki, 2021). The selection of the regression model must be conducted through model suitability tests, namely the Chow test, the Hausman test, and the Lagrange Multiplier test. The Chow test is used to choose between the FEM and the CEM; if the cross-sectional probability value is > 0.05, the best model is the CEM; if it is < 0.05, the best model is the FEM (Nani, 2022), and the analysis proceeds to the Hausman test. The Hausman test is used to choose between the FEM and the REM. If the cross-sectional probability value from the Hausman test is greater than 0.05, the appropriate model is the REM; if it is less than 0.05, the selected model is the FEM (Nani, 2022). The Lagrange Multiplier test is used to choose between the CEM and the REM. If the cross-sectional probability value is greater than 0.05, the best model is the CEM; if it is less than 0.05, the appropriate model is the REM (Hamid et al., 2020 ; Basuki, 2021; Nani, 2022).

This study is necessary to test the classical assumptions using tests for normality, multicollinearity, and heteroscedasticity. The normality test is used to determine whether a sample's residuals are normally distributed. If the p-value is less than 0.05, the data are not normally distributed; if the p-value is greater than 0.05, the data are normally distributed (Nani, 2022). The multicollinearity test assesses whether the independent variables are highly correlated. If the correlation coefficient is < 0.8, there is no evidence of multicollinearity; if the correlation coefficient is > 0.8, there is evidence of multicollinearity (Nani, 2022). The heteroscedasticity test is used to determine whether the variance of the residuals varies across observations. If the probability value is < 0.05, there is evidence of heteroscedasticity; if the probability value is > 0.05, there is no evidence of heteroscedasticity (Hamid et al., 2020). This is followed by a panel data regression analysis with hypothesis testing using t-tests, F-tests, and the determination of the coefficient of determination. The coefficient of determination is used to assess the extent to which independent variables explain the dependent variable; if it approaches 1, the independent variables provide a stronger explanation of the dependent variable (Chabachib & Abdurrahman, 2022). The F-test is conducted to determine whether the independent variables simultaneously contribute to the dependent variable. If the F probability value is < 0.05, the independent variables simultaneously influence the dependent variable (Hamid et al., 2020; Nani, 2022). The t-test is used to determine the partial significance of independent variables on the dependent variable. If the p-value is greater than 0.05, the independent variables do not influence the dependent variable; conversely, if the p-value is less than 0.05, the independent variables have a significant influence on the dependent variable (Sahir, 2021).

4. Finding and Discussion

This study utilized three models: the FEM, CEM, and REM. Panel data regression analysis was carried out in stages of regression model selection using the Chow test, Hausman test, and Lagrange Multiplier test. The Chow test is an estimation model test used to determine whether the resulting model is a fixed-effects model or a common-effects model.

Table 2: Chow Test Results

Effects Test	Statistic	d.f	Prob.
Cross-section F	17.967555	(10,20)	0.0000
Cross-section Chi-square	85.5522013	10	0.0000

Note: Data processed by the author

The results of the Chow test show that the probability value for the cross-sectional F-statistic is less than 0.05 < 0.05, so the FEM was selected. The next step was to conduct the Hausman test, which evaluates the estimation models to determine whether the FEM or the REM is preferred.

Table 3: Hausman Test Results

Test Summary	Chi-Sg.	Chi-sq. d.f	Prob.
Cross-section random	1.632146	3	0.6521

Note: Data processed by the author

The results of the Hausman test showed a probability value of 0.6521 for the random cross-section model 0.6521 > 0.05. Thus, the Hausman test identified the **REM** as the selected model. Therefore, the analysis proceeded to the Lagrange Multiplier test. The Lagrange Multiplier test is a method for evaluating estimation models to determine the preferred model between the **CEM** and the REM.

Table 4: Lagrange Multiplier Test Results

Test Hypothesis	Cross-section	Time	Both
Breusch-Pagan	37.55997	1.685200	39.24517
	(0.0000)	(0.1942)	(0.0000)

Note: Data processed by the author

The results of the Lagrange Multiplier test show a p-value of 0.0000, which is < 0.05. The regression model selected in the Lagrange Multiplier test is the REM. The findings of this study reveal that the selected model is the REM. Hence, the REM is the most appropriate.

This study conducted classical tests for normality, multicollinearity, and heteroscedasticity. In panel data analysis, it is not required to perform an autocorrelation test. This is because panel data is cross-sectional, whereas autocorrelation occurs only in time-series data. Furthermore, a normality test is also not required, as it is not a mandatory assumption. The model selected through the model selection process—namely, the REM estimated using Generalized Least Squares, which already accounts for the error variance structure—means the study did not need to perform a heteroscedasticity test (Hamid et al., 2020; Basuki, 2021; Nani, 2022). Therefore, the assessment of classical assumptions for panel data relies solely on the multicollinearity test.

Table 5: Multicollinearity Detection Results

Variables	Individual Education	Upholding Justice	Welfare
Individual Education	1	0.4733014	-0.259836
Upholding Justice	0.4733014	1	-0.179777
Welfare	-0.259836	-0.1797775	1

Note: Data processed by the author

The results of the multicollinearity test show that all independent variables (X) including individual education, upholding justice, and welfare had values below 0.9. Therefore, no multicollinearity was detected among the independent variables. The results regarding multicollinearity confirm that this model is free of multicollinearity (Hamid et al., 2020; Basuki, 2021; Nani, 2022).

Table 6: Random Effect Model

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	84.71345	15.25899	5.551710	0.0000
Individual Education	30.12379	7.587159	3.970365	0.0003*
Upholding Justice	0.658087	0.792573	0.830317	0.4113
Welfare	206.4575	14.20885	14.53020	0.0000*
R-squared	0.858057			
Adjusted R-squared	0.847411			
Prob(F-statistic)	0.000000*			

Note: * Indicates significant at 5% level of significance

The results of the simultaneous test in this study show an F-statistic value of 80.60099 with a probability of 0.000000. Therefore, collectively, the MSI through its dimensions of education, justice, and welfare contributes to the financial sustainability ratio. In this study, the coefficient of determination was used to assess the explanatory power of the independent variables. The findings from the coefficient of determination test show an R-squared value of 0.858057 and an adjusted R-squared value of 0.847411. Since this study uses more than one independent variable, the adjusted R-squared value was used. These results indicate that the dependent variable in this study explains 84.74% of the variation in the independent variables, while the remaining 15.26% is explained by other factors not included in the model.

Individual education has a positive coefficient of 30.12379 with a probability value of 0.0003 < 0.05. Statistically, this indicates that individual education has a significant positive influence on the financial sustainability ratio at Islamic Rural Banks. Budget allocation for education, training, research, and publication costs is not a waste of operational resources but serves as a long-term strategic instrument. Amid the crisis and post-pandemic recovery (2020-2023), this has proven to foster the development of high-quality, competent human resources. This finding aligns with Sharia Corporate Theory, which requires Islamic Rural Banks, to uphold social and spiritual responsibilities, one of which is through enhancing the knowledge and skills of employees, customers, and the community (Kalbarini, 2018); (Wahyuni & Abdullah, 2021); (Meutia, 2021). In practical terms, increased investment in education and training demonstrates that applying Sharia principles focused on human resources is a fundamental strategic tool for achieving the Financial Sustainability Ratio (FSR) at Islamic Rural Banks in Central Java (Reza & Violita, 2018); (Ayuningtyas et al., 2020); (Rohmah et al., 2021). This study is further supported by the fact that the allocation and increase in expenditure on education, research, training, and publications in several Islamic Rural Banks, which has fulfilled their social responsibility to improve employee welfare and enhance customer financial literacy, thereby stabilizing their financial performance (Abdullah & Nugraha, 2020). The findings of this study also support those of Ayuningtyas et al. (2020) and Rohmah et al. (2021), who state that individual education contributes positively to financial sustainability ratios. This aligns with the objectives of Islamic banking and thus contributes positively to financial sustainability ratios.

Upholding justice shows a positive coefficient of 0.659087, but with a probability value of 0.4113 > 0.05. (Sutrisno & Widarjono, 2018), (Ayuningtyas et al., 2020) and (Wiyawan et al., 2024) indicate that the upholding justice does not make a significant contribution to the FSR in Islamic Rural Banks, although this contrasts with the findings of Rohmah et al. (2021) and Darmawati, (2022). Theoretically, the results of this study do not fully support the theory of Islamic companies in the dimension of justice. The lack of significance of the justice enforcement variable in its influence is due to three suboptimal ratio measurements. Firstly, data regarding the Profit Equalization Reserve (PER) was not found in the Islamic Rural Banks' financial statements (Udin N.F. & Trihantana, 2015). This result indicates that Islamic Rural Banks lack operational mechanisms to withhold profit-sharing distributions to customers. Secondly, six Islamic Rural Banks were found not to have distributed any *mudharabah* financing, reflecting fairness and cooperation (Kalbarini, 2018). This suggests that Islamic Rural Banks are driven by economic motives, as they avoided high levels of risk in *mudharabah* financing during the severe economic crisis of the 2020-2023 period. In the context of Islamic finance, Islamic Rural Banks, as one of the spearheads of the Islamic economy, face a dilemma in fulfilling spiritual objectives by sharing risks fairly through *mudharabah* financing whilst maintaining business continuity (going concern) (Meutia, 2021). Islamic Rural Banks are highly vulnerable to economic problems, particularly during the 2020-2023 crisis (Hanafi et al., 2022). This dilemma demonstrates shortcomings in their role as a social safety net in accordance with Sharia principles. Thirdly, the majority of Islamic Rural Banks in Central Java have not yet fully committed to 100% riba-free income, as evidenced by the financial statements of each Islamic Rural Bank. This poses a challenge for Islamic Rural Banks in comprehensively applying the principle of justice (*kaffah*), as the variable dimension of justice enforcement have not yet been able to drive effective FSR (Amalia, 2020; Fadhila & Christiana, 2020). The findings of this study support the research by Ayuningtyas et al. (2020), Rohmah et al. (2021), Darmawati (2022), and Wiyawan et al. 2024), which states that the variable upholding justice is not significant for financial sustainability.

Welfare has a positive coefficient of 206.4575 with a probability value of 0.0000 < 0.05. Therefore, it was indicating that the welfare variable has a significant positive influence on the FSR at Islamic Rural Banks. The findings of this study are consistent with Sharia Business Theory. *Maslahah* is measured using profitability ratios. High profitability in Islamic Rural Banks indicates that these institutions can function as sound business entities and absorb external economic shocks. The allocation and distribution of zakat within Islamic Rural Banks demonstrate that these institutions fulfill their responsibilities towards fellow human beings through the redistribution of wealth and towards God through adherence to sharia principles (Meutia, 2021). The distribution of zakat can foster strong customer loyalty and goodwill within the community. This ultimately enhances trust and supports the Financial Sustainability Ratio (FSR) (Ali et al., 2023). This study supports the findings of Ayuningtyas et al. (2020), Rohmah et al. (2021), and Darmawati (2022). Islamic Rural Banks in Central Java during 2020-2023 demonstrated a strong commitment to community welfare. This is evident from publicly available profitability data and the implementation of zakat distribution, which serves as a strong driver of Islamic Rural Banks' ability to withstand external and internal volatility.

5. Conclusions

This study aims to analyze the influence of the MSI on the Financial Sustainability Ratio of Islamic Rural Banks in Central Java from 2020 to 2023. The analysis shows that individual education and public welfare significantly and positively influence the FSR of Islamic Rural Banks. These results support the Sharia Enterprise Theory, which posits that the financial sustainability of Islamic Rural Banks is driven not only by profit motives but also by a commitment to social responsibility, human resource development, and wealth redistribution. The main novelty of this study is that it proves that non-financial sharia aspects are drivers of FSR, particularly in the Islamic Rural Banks sector in Central Java from 2020 to 2023. However, this study found that the variable of upholding justice did not have a significant effect on FSR. The implications of these findings are significant, as Islamic Rural Banks in Central Java have not yet fully implemented the principle of justice in their practices. This is indicated by the lack of a PER mechanism and the high risk of channeling *mudharabah* financing. Therefore, Islamic Rural Banks need to align their products and practices with Sharia objectives. This is important for evaluating and improving the implementation of justice in the micro-sharia banking sector.

This study expands on Islamic finance theory by demonstrating that the financial sustainability ratio in Islamic Rural Banks depends on spiritual and social variables (MSI) rather than solely on profit. This study demonstrates that, empirically, non-financial objectives, namely the individual education (*tahdhib al-fard*) and the welfare (*jalb al-maslahah*), have a direct impact on the financial sustainability of Islamic Rural Banks. However, during the COVID-19 period, this study did not rely on the principle of upholding justice (*iqamah al-adl*) to ensure the sustainability of Islamic Rural Banks. In practical terms, the results of this study serve as a roadmap for stakeholders in Islamic Rural Banks. Islamic Rural Banks' management must cease viewing the allocation of funds for education, training, research, and publication as an operational loss. The allocation of costs for education, training, research, and publications must be integrated into the Islamic Rural Banks' long-term strategic business plan. For OJK, the absence of a PER and the limited use of *mudharabah* financing indicate a systemic issue. Policymakers need to formulate technical guidelines on the PER to prevent Islamic Rural Banks from failing to engage in *mudharabah* financing.

This study has several limitations. First, the study sample is limited to only 11 Islamic Rural Banks in Central Java. Second, data on the dimensions of the MSI are incomplete; not all Islamic Rural Banks in Central Java consistently publish the financial information required for it. Third, Islamic Rural Banks have not published financial sustainability ratios in their financial statements, thereby limiting the transparency and completeness of the data in this study. Fourth, currently, only a limited number of Islamic Rural Banks use the MSI as a performance measure, so these findings cannot yet be interpreted comprehensively across the entire Islamic banking industry. Future research is expected to analyze Islamic Rural Banks throughout Indonesia, including those not yet registered with the OJK, to obtain a comprehensive industry overview. Additionally, future research could focus on Islamic Rural Banks with more complete financial statements and conduct the study during a period of economic stability following the COVID-19 pandemic, thereby yielding more empirical results. Future researchers are advised to extend the study period to characterize the conditions of Islamic Rural Banks better.

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