

# FINANCING MODEL TO DEVELOP LOCAL COMMODITY BUSINESS OF EAST JAVA IN MAQASHID SYARIAH PERSPECTIVE

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## **FINANCING MODEL TO DEVELOP LOCAL COMMODITY BUSINESS OF EAST JAVA IN MAQASHID SYARIAH PERSPECTIVE**

<sup>1</sup>\*Ana Toni Roby Candra Yudha, <sup>2</sup>Muhamad Nafik Hadi Ryandono, <sup>3</sup>Akmalur Rijal, <sup>4</sup>Ida Wijayanti

<sup>1</sup>Faculty of Islamic Economics and Business, State Islamic University Sunan Ampel of Surabaya

<sup>2</sup> Faculty of Economics and Business, Airlangga University

<sup>3</sup> Faculty of Islamic Economics and Business, State Islamic University Sunan Ampel of Surabaya

<sup>4</sup> Faculty of Economics and Business, Airlangga University

\* Corresponding author : [anatoniroby@gmail.com](mailto:anatoniroby@gmail.com)

### **Abstract**

*East Java has an average economic growth above the average national economic growth, which means the productivity of superior local commodities has been accepted and consumed by the community, both local and global community. Local commodities are goods produced by people with added value so as to increase per capita income and economic prosperity. This has become a common conversation both from practitioners, businesspeople, academics, and even government. The existence of local commodities need to be maintained and continue to be the focus of economic revamping, so it needs a development model of local superior commodities that can run continuously based on the values of justice, balance, and efficiency.*

*This study aims to build a modification model which develop local commodity business in maqashid syariah perspective and produce business indicator that developed by maqashid syariah perspective. This research is expected to contribute a concept and application of scholarship which especially focuses on business development model. The research approach used is qualitative descriptive with explanatory analysis. The object of research is local businessmen from cooperative managers and coffee farmers in Puncu village, Kediri Regency.*

*The financing model to develop the local commodities business of East Java lies not only in developing the material only, but also should place human as the subject and main object to be involved in the business development process. The indicator of commodity business that develops based on the perspective of maqashid syariah is the preservation of worldly and ukhrowi masalah.*

**Keywords:** Financing, Business, Local Commodities, Maqashid Syariah

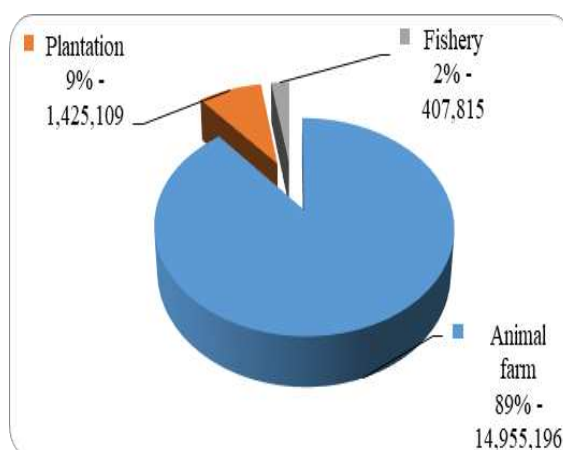
## INTRODUCTION

### 1. Background

East Java Province is one of the provinces in Java Island that has a great valued commodity. This is evidenced by the stable economic growth of East Java, which in 2015 to 2018, the average growth is a range of 6% or 0.5% above the average national economic growth of 5.5%.

The economic growth of East Java province is clearly supported by many sectors, such as industry, trade, maritime, and education sector. The existence of economic growth in East Java is clearly an effective stimulant for other provinces to improve its competitive power for local commodities.

Economic growth of East Java province which is the largest in Indonesia with the second largest population growth rate in Indonesia (East Java BPS, 2017), becomes the opposition as well as opportunities for the people of Indonesia and East Java society, especially in utilizing and maximizing the commodities contained in East Java. Overall commodities produced in East Java province in outline there are three components namely the field of plantation, fishery and livestock. Here's more data.



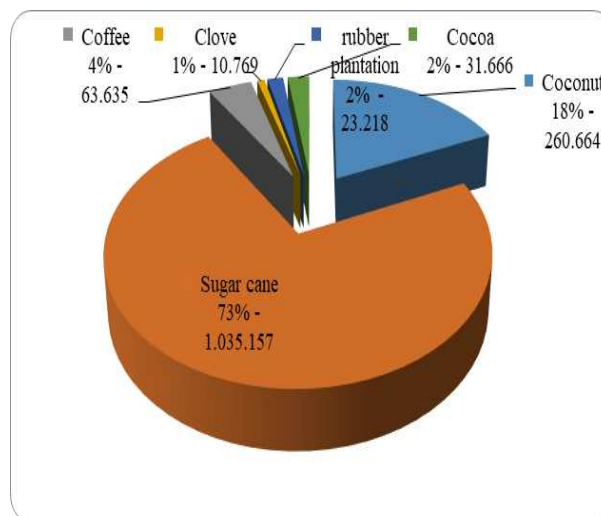
Source: East Java BPS Statistics 2017, processed

**Figure 1.** East Java Commodities 2016 (in tons)

Based on figure 1 on East Java commodity 2016, it can be seen that there are three most dominant elements of East Java province income support. The first rank around 89% comes from animal farms that is 14,955,196 tons, then the second around 9% comes from plantation is 1,425,109 ton and the third is a fishery field around 2% or worth to 407,815 tons.

Especially in the field of animal farm, its value does not include the results of chicken and egg farms. The result of chicken farm in East Java produces 283,266,833 tons while the result of chicken breeder in East Java produces eggs as much as 445,792,029 tons.

In addition to the top commodity of East Java, in this case also needs to be submitted the results of plantation commodities in detail released in 2017 by the Central Bureau of Statistics (BPS) of East Java. In connection with research on the development of this local commodity business, it is necessary to examine and classify the commodities produced and marketed by the object of research. The object of this research took place in Kediri, precisely in the village of Puncu located at the foot of Mount Kelud in Kediri Regency. The area is able to produce coffee and chili in a large amount. Based on the results of plantations in East Java in 2016, coffee is a 'not favorite' commodity, proven in data released by BPS, coffee only amounted to 63,635 tons. Here's more data.



Source: East Java BPS Statistics 2017, processed

**Figure 2.** Results of 2016 East Kalimantan Plantation(in tons)

Potential and yield of plantation commodities in East Java is one of the wealth that can be a potential revenue income, both at the district / city level and the province level. The existence of superior commodities found in East Java was still raises many problems in making these commodities worth to use. Which is, to turn the commodity into income, there are several things that need alternative solutions. So that it is required a management with system and concept of integrated management based on Islamic perspective. The concept of Islamic management is actually synonymous with the principles of good corporate governance (GCG). In general, the concept of GCG consists of the concept of transparency, independence, accountability, responsibility, and fairness.

The issue of commodity management needs to be found the solution with the concept of Islamic approach management or more specifically by using the maqashid syariah approach. Implementation of the maqashid syariah concept by the Muslims becomes important in the midst of changing times. This is intended to maintain the robustness of a valuable and sustainable system. Especially if there are economic problems including the commodities management, it must be

sought solution by studying and practicing the contents of the Qur'an and Al Hadith.

The relationship between Islam, management and business development, and the concept of maqashid sharia in business is a profession field recommended in Islam because it can provide many benefits to the wider community. So that method, application, and impact must be guaranteed by syar'i. Therefore, based on the background review presented in the previous section, the researcher is interested to conduct a research entitled *Financing Model to Develop The Local Commodity Business of East Java in Maqashid Syariah Perspective*.

## 2. Problem Formulation

Based on the description that has been reviewed in the background section of the problem, the formulation of the problem in this study are:

- a. What is the financing model to develop a local commodity business in East Java that is structured using the maqashid syariah perspective?
- b. How are the commodity business indicators been developed based on the perspective of maqashid sharia?

## 3. Research Objectives

Based on the fomulation of problem then the purpose of this study are to:

- a. Build a modification model to develop local commodity business in maqashid syariah perspective;
- b. Build a growing business indicator based on maqashid syariah perspective.

## 4. Research Benefits

Based on the background, problem formulation, and research objectives, it is hoped that this research can contribute in the form of:

- a. The concepts and application of scholarship which focuses mainly on the business development model;
- b. Scientific contribution related to marketing management, sales management, and Islamic financial management, so that it can be used as reference for writing and activities related to business development management.

## **LITERATURE STUDY**

The literature which later became a supporter of the theory of this study is divided into several theories. The theory consists of financing theory, business, commodities, and of course the theory of maqashid syariah.

## 1. Financing

Financing in ordinary language is the activity of funding an activity in business orientation who expect a return. The definition of financing pursuant to Law of the Republic of Indonesia Number 21 of 2008 concerning Islamic Banking is 'provision of funds or equivalent bills in the form of':

- a. Shared transaction in the form of *mudaraba* and *musharaka*;
- b. Lease transactions in the form of *ijara* or lease purchase in the form of *ijarah muntahiya bittamlik*;
- c. Sale and purchase transactions in the form of *murabahah*, *salam*, and *istishna* 'receivables';
- d. Lending and borrowing transactions in the form of pitch *qardh*; and
- e. Lease transactions in the form of *ijara* for multilateral transactions, based on an agreement or agreement between Sharia Bank and / or UUS and other parties and / or granted fund facilities to refund the funds after a certain period in exchange for *ujrah*, without remuneration, or profit sharing.

Financing based on sharia principles is funding to productive and consumptive businesses tied to sharia provisions that are only for *halal* and *toyyib* business schemes. Sharia financing has different concept with credit, the core difference lies in the scheme and the expected profit (return). The expected return on conventional financial institutions using the interest system, while the financial institution or Islamic bank lies in the system of profit sharing. The following is the difference between revenue share and interest as outlined in table 1.

**Table 1.** Difference between Profit Sharing and Interest

| <b>Profit Sharing</b>   | <b>Interest rate</b>  |
|---|---|
| i. The determination of the profit-sharing ratio shall be made based on the possibility of profit loss                          | i. The determination of interest is made with the assumption that it must always be profitable                                    |
| ii. Based on the profit-sharing ratio based on the amount of profit earned.   | ii. The percentage is based on the amount of money (capital) that is lent.  |
| iii. Profit sharing depends on the results of the project being run. If the company loses, the loss is shared with both parties | iii. Fixed interest payments as promised without consideration of whether projects run by customers profit or loss                |
| iv. The amount of profit sharing increases as the income increases  | iv. The amount of interest payments does not increase even if the amount of profit doubled or the economic situation is improving |
| v. No one doubts the validity of profit sharing   | v. The existence of interest is doubtful (by all religions), including Islam  |

## 2. Business

Business is a term that describes all sorts of activities that produce value-added goods and services for all needs. In general, business can be defined as, "the activities undertaken by human beings to earn income or rizki in order to meet the needs and desires of his life by managing the economic resources effectively and efficiently. The business sectors of the economy include agriculture, industry, services and trade." (Muslich, 2004: 46)

## 3. Commodities

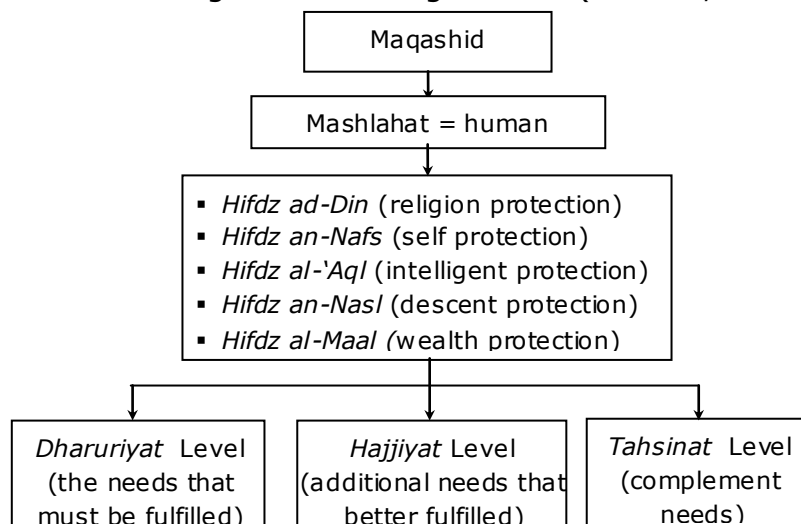
Commodities are primary merchandise, commercial goods and creative products produced in certain regions (Kamus Besar Bahasa Indonesia). And the leading commodities are goods or crops that are said to have added value compared to other regional products.

The characteristics of leading commodities, among them are:

- i. Have added value
- ii. Have competitiveness
- iii. Available in local potential, also can be developed and traded in other areas.
- iv. Economical.
- v. Can be developed in quantity and quality level.

## 4. Maqashid Shariah

Maqashid shariah is divided into two languages namely maqashid and syariah. Maqashid means intentional or purpose, maqashid is a form of jama 'from Maqsud derived from the syllable of Qashada which means will or intend. Maqashid means the things desired and intended. (Ibnu Mandzur, tt: 3642). While the Shari'ah language means means Road to the source of water, the road to the water source can also mean walking toward the source of life. (Munawwir, 1997: 712). The explanation of the substance and variety of maqasid shari'ah, can be elucidated through the following scheme (Sahroni, 2015: 7):



The word of Allah SWT in the Qur'an mentions some of the words "shari'ah", which are:

ثُمَّ جَعَلْنَاكَ عَلَىٰ شَرِيعةٍ مِّنَ الْأَمْرِ فَاتَّبِعْهَا وَلَا تَتَّبِعْ أَهْوَاءَ الَّذِينَ لَا يَعْلَمُونَ [سورة الجاثية، ١٨]

Meaning: Then We made you above a Shari'ah (regulation) of religion, So follow the Shari'a and do not follow the lust of those who do not know. (Q.S Al-Jasiyah [45]: 18).

Maqashid Shari'a according to the terms is the objectives of Islamic law contained in each rule. Imam Al-Syathibi reveals the *shari'ah* and its function for man as his expression in the book of al- *Muwafaqat* (Kasdi, 2014):

هذه الشريعة .... وضعت لتحقيق مقاصد الشارع في قيام مصالحهم في الدين والدنيا معا

Meaning: "The Shari'a is set aimed at the upright (manifesting) human maslahah (welfare) in the world and the Hereafter".

On the other side its mentioned

الاحكام مشروعة لمصالح العباد

Meaning: "The laws are enacted for the benefit of the slaves".

Al-Syatibi does not define the Maqashid Shariah as mashlahah or the goodness and welfare of mankind both in the world and in the Hereafter. Therefore, Al-Syatibi put the position of maslahat as *'illat* law or the reason of Islamic law, different from other *ushul fiqih* An-Nabhani for example he carefully emphasized repeatedly, that *maslahat* is not *'illat* or motif (*al- ba'its*) the determination of the Shari'a, but the wisdom, the result (*natijah*), the purpose (*ghayah*), or the result (*'aqibah*) of the application of the Shari'a.

The conclusion that Maqashid Shari'ah is a concept to know the wisdom (values and targets *syara'* that is written and implied in the Qur'an and Hadis) set by Allah *ta'ala* to man as for the ultimate goal of the law is one, that is mashlahah or the goodness and welfare of mankind both in the world (with *Mu'amalah*) and in the Hereafter (with *'aqidah* and Worship). While the way to achieve the benefit of humankind must meet the needs of *Dharuriat* (Primary), and refine the needs of *Hajyat* (secondary), and *Tahsiniat* or *kamaliat* (tertiary).

In the other sections on the maqashid shari'a also described the principle of priority. This priority concept of placing is done by the 'ulama'. Here are some scholars' who argue differently about the priorities of maqashid shariah (Sumanto, 2018).

a. Imam Al Ghazali (died 505 H)



The order of *Maqashid al syari'ah* according to al-Ghozali is divided into three; first, *al-dhurat* (primary rights); second, *al-hajat* (secondary right); and the three *al-tazzayunat wa al-tashilat* or *al-tahsinat* (supernatural rights) of the way this division is undoubtedly al-Ghozali summarizes the five divisions of *Illal* and *ushul* in al-Burhan fi Ushul al-Fiqh by his teacher, al-Juwaini, above only these three divisions of *al-dharuriyat*, *al-hajat* and *al-tahsinat* versions of al-Ghozali are more concise and compact than previous versions of al-Juwaini.

b. Fakhr al Din al Razi (d. 606)

He points out that the order of value in the *maqashid* of shariah which does not begin with the protection of religion is more logical and more important is the protection of the soul (*Hifdul Nafs*), as it is written on Umer Chapra (2007), 'Fakhr Al-Din Al Razi said a prominent writer around a hundred years after al-Ghazali, giving the first place to the human self (*al-nafs*). This seems to be more logical in a discussion of sustainable development for the simple reason that human beings as *khalifah* or vicegerents of God are the end as well as the means of development.

c. Izzudin Ibn Abd Al-Salam (died 660 AH)

At a glance Izzudin influenced al-Ghozali on the division of *maslahat* into a worldly, recognizable *maslahat* known through reasoning or custom, and *maslahat ukhrowi* that can be recognized or known through religious teachings. Besides the worldly division and *ukhrowi*, he also divides the *maslahat* into three kinds: *Al-dhoruriyyah*, *al-hajiyyah*, and *al-tahsiniyyah*. It's just that the division looks still vague behind the division of various kinds of *maslahat* and *mafsadah* so much. Then at *al-dhoruriyyah*, Izzudin included *al-iradh* (honor) to complete the five primary *maslahat* al-Ghozali. If the primary *maslahat* according to al-Ghozali there are five: religion, soul, descent, mind, and property. In the hands of Izzudin, primary *maslahat* is converted into six: religion, soul, descendants, honor, mind, and treasure. In this context, Izzudin is the first *ushul* scholar to include honor (*al-iradh*) in *al-mashalih al dharruriyyah*. In this context, Izzudin is the first *ushul* scholar to include honor (*al-iradh*)

d. Imam al-Qarafi (d. 684 AH)

The definition of *maslahat* according to al-Qarafi is almost similar to Izzudin's opinion. In the *qiyas* chapter, *maslahat (al-munasib)* for al-Qarafi is inviting benefits and preventing damage. Then in the division of *maslahat*: primary rights (*al-dharuriyyat*), secondary rights (*al-hajiyyat*) and supplementary rights (*al-tahsiniyyat*) are also not much different from his teacher Izzudin (Mustafied, 2013: 44). In the primary *maslahat*, like his teacher, al-Qarafi includes honor (*al-iradh*) as part of the primary rights. It is important to know that the order of al-Qarafi's primary rights differs from that of al-Ghazali who prefers religion rather than soul. The sequence al-Qarafi made as follows: soul, religion, heredity, reason and honor.

## 5. Previous Research

Previous research is an empirical study that has a related discussion with this study. The research has been done and has a relationship at least in terms of themes. Here are the previous studies:

- i. Hamid and Susilo said that the development of SMEs is not only held by SMEs, but also must be supported by all stakeholders. Support is expected to come from business associations, universities, and related agencies in districts / cities in DIY. Government policy is also needed to encourage the development of SMEs. The development of SME in DIY is an acceleration of SMEs transformation from the formation phase to the stabilization phase.
- ii. Irmawati, Damelia, and Puspita said that the model obtained to make SMEs in Klaten as a good quality UMKM that is through the entry of financial institutions. Further explained, the needs of UMKM entrepreneurs is divided into two namely capital and marketing. This proves that what is needed is not only material but also non material.
- iii. Rama and Makhilani conduct research on economic development from the perspective of maqasid syariah. Economic development is intended to safeguard and preserve the five basic elements of human life support, namely religion (*dîn*), soul (*nafs*), intellect (*'aql*) descent (*nasl*), and property (*mâl*). Furthermore, the focus of economic development lies not on mere material development, but must place humans as subject and main object in relation to Allah's *khalîfah*.

## **RESEARCH METHODOLOGY**

### 1. Research Approach

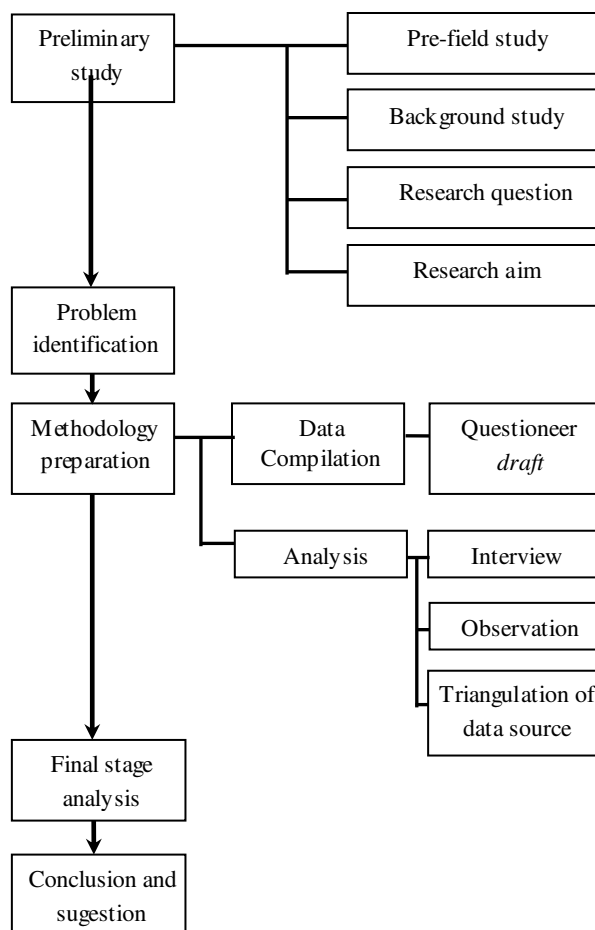
This research is a type of qualitative research. Qualitative research is a research that requires researchers directly involved in the research process. The qualitative research process involves methods of data mining in the form of in-depth interviews, pre-observation and post-research. Qualitative research is a research that prioritizes the process rather than the results of research, so the details of the process is very important points in preparing the results of research reports. The design of the study was made flexible in accordance with the field conditions from the beginning to the end of the study.

The strategy used in this qualitative study adjusts the need for data and research substance, which in this case is a case study accompanied by explanatory analysis. Explanatory analysis is a type of analysis that is based on primary data of research that is studied and analyzed with limitation until there is no gap to be discussed again.

Robert Yin (2000: 18) explains that the meaning of case study research is a research method that specifically investigates contemporary phenomena contained in real-life contexts that are implemented when the boundaries between phenomena and the context are unclear, using various data sources.

## 2. Scope of Research

The scope of this study is an area covering all business activities involving local communities of East Java, and the issues that follow, an alternative offer of solutions that use the values of maqashid sharia. Local business processes that aim to support the local economy, especially rural communities, will be observed in terms of capital models, supervisory models, advisory models, and marketing models. Surely all of these models have a relation on the discussion of the financing model for the development of the economic value of local commodities. In addition to the research on the scope of the study, presented also model flow chart of this research. Here's a complete chart picture.



**Figure 3.**  
Flow Chart of Research

The current research flow is divided into 5 phases. This phase is a preliminary study, problem identification, methodology preparation, final-stage analysis and inference phase. The first stage, starting with the initial study is a

phase consisting of field review with a visit to the object of study at the study site. The pre-field activities consist of surveys of characteristics and types of local community work, observing local excellent potentials, as well as observing the management of commodities and distribution channels. Obtained from the pre-field are then compiled into the initial report of the study, problem formulation and research objectives. Second stage is studying the problem of local superior resource management, then identified with SWOT analysis (strength, weakness, opportunity, and treatment).

The third stage, is the stage of formulating research methodology. This stage consists of data collection and data analysis. Data collection through several technical interviews, observation and triangulation of sources. Interviews were conducted with several informants from different backgrounds. Some of them come from business practitioners or consultants, local communities, and some are academics. If there is lack of objective data in interviews with informants, then the observation needs to be done by visiting the study site.

The fourth stage, after collecting and analyzing the data then the next process is the final analysis. The final analysis includes a review process with focus group discussion (FGD) and seminars. The fifth stage is the final stage of the research. The stage in which the results of seminars and FGDs will be compiled in the final report accompanied by conclusions and suggestions that are input into the policy level.

### 3. Types and Data Sources

The data used in this study consist of primary data and secondary data. The data sources from this study are also primary and secondary data sources. Primary data is data collected and processed by the publishers themselves, while secondary data is data generated by organizations that are not processors (Dajan, 1991: 19). Primary data comes from interviews with the experts, academics and local businesses from cooperative managers and coffee farmers in Puncu village, Kediri Regency. Those who mainly know and run business activities affiliated with cooperatives in terms of financing, participatory observation, and focus group discussions (FGDs) as well as documents related to the management of waqfs. Secondary data is derived from books, journals, magazines, newspapers, and documents or reports of previous research activities ever undertaken related to the management of commodity business financing.

### 4. Data Collection Techniques

The data collection required in this study is divided into several methods, namely:

#### a. Interviews

The first technique that should be done is the discussion and interviewing of several informants who have different backgrounds. The informants consisted of several elements, each of them with a business background (practitioner), a supervisor, a delegation of institutions assisting local communities, academics and the rest of the local community who were also business persons.

b. Observation

Observation is done gradually by participatory. This means that researchers gradually need to conduct field trips with frequencies more than once to observe business conditions and other supporting conditions. While in participative observation, researchers do the field observation by involve in the local community to obtain data in the form of habits, linguistics, and business progress.

c. Focus Group Discussion (FGD)

Researchers need to conduct focus group discussions (FGD) by inviting all informants, both from experts / academics and on practitioners (business people), which aims to determine the validity and accuracy of data and information obtained from each informant. The next stage is the researchers will also analyze the data obtained from the documentation process such as photos, audio recordings, and financial statements related to the process of business activities and financing. The results of these interviews and observations will be documented with transcripts and audio recordings which are then recalled in the form of analytical studies.

## **RESULTS AND DISCUSSION**

Based on the results of the research obtained in the field, the following results are obtained:

1. The local community still has relatively low value technology. This is considered fair, as young people and local communities prefer to find employment and income in big cities, for example in Surabaya, Surakarta / Solo, Jakarta and other cities. They are less aware that there is a lot of potential that can be an additional revenue generator of great value.

There are interesting findings in the field that there are residents who come from Jombang who work as vegetable traders in the market, deliberately visited the village to rent a patch of land for planting chili and tomato. The plant does have a high level of demand in the market. Stable prices, high demand, and few competitors are some of the conditions that become more points to rent village land, which majority is land in the plateau (2000 meters under sea level). The economic value of planting chili and tomato obtained was also quite large. If the average selling rate on the market is 200,000 - 300,000, while doing the rice planting and until harvest time, the yield is 25,000,000 - 30,000,000 / harvest time. This is a stimulant for local communities to be more productive in utilizing local commodities.

2. There is another natural potential, which can be utilized in the area is clean water. Clean water after being examined by several state campus that the result was water in the foot area of Kelud Puncu Kediri Mountains have a level of clarity and mineral content of metal that exceeds mineral water content of mineral with famous brands. It was also confirmed by local community leaders who had interacted directly with the researchers. Eyewitness business is an opportunity, because it takes some help both physical and non-physical. Physical assistance is the packaging of drinking water and sealer (tool packs) as well as physical assistance is monitoring and training of Islamic marketing.

The presence of abundant water reserves will be a local asset that certainly can increase the income of local communities, because at least if the water has been processed and packed properly, it can be marketed in the region of Kediri and surrounding areas. The need for water for various family events and larger-scale events is a potential market for puncu rural communities if they can utilize the water in an economical way.

3. There is an institution as a third party involved in developing local potentials, is an amil zakat institution (LAZ) which is then tasked to assist in supporting local communities in the provision of additional skills. Assistance such as providing coffee roasting training, grind, pack up to market coffee. Training and skill is done until the final target is until the local community (farmers) manage the process independently.

Along with the growing productivity of local people will be processed coffee products. There is also a lot of help from outside parties in the form of milling tools, packaging and assistance in the marketing aspect. But when the coffee is ready for consumption and ready to sell not infrequently people market and sell it directly to consumers, which incidentally is the local village communities and neighboring villages, as well as tourists who come to the village.

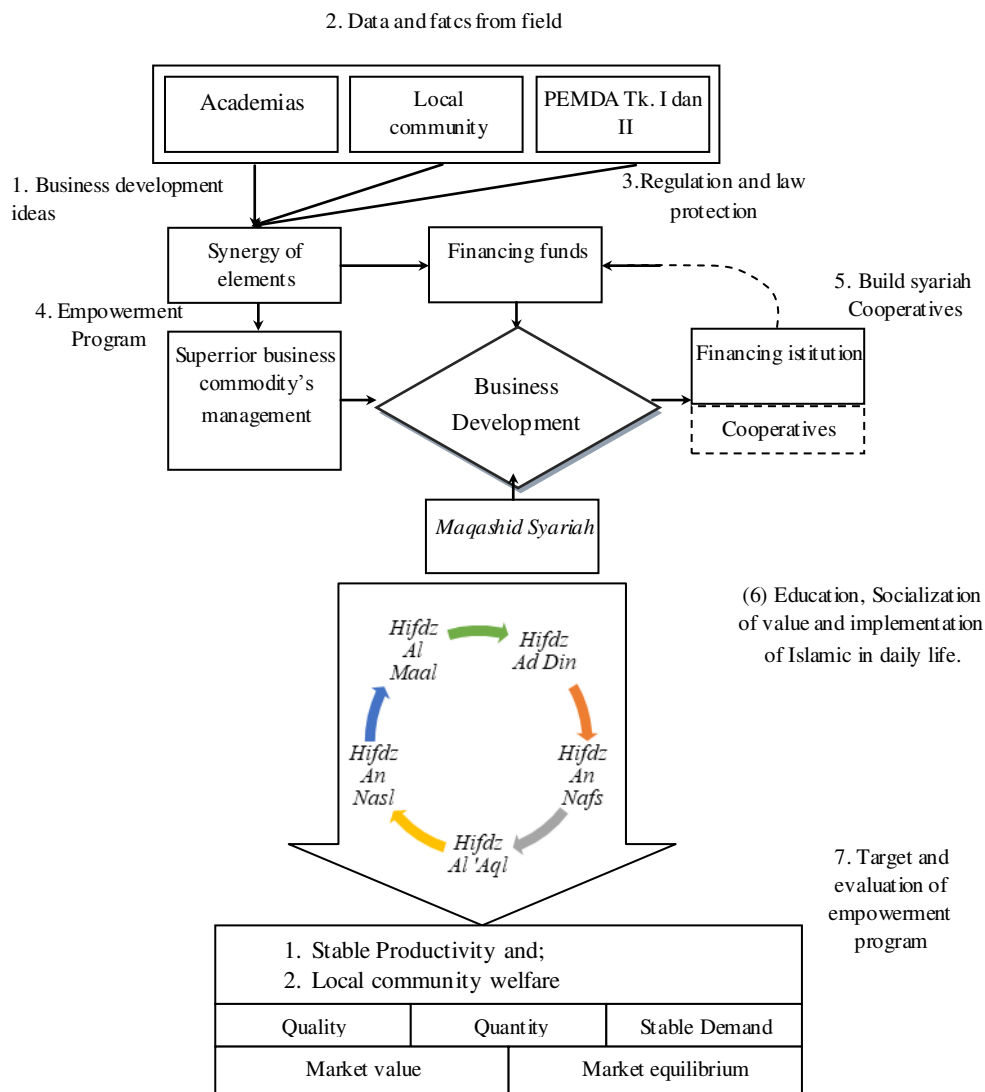
4. The presence of local potential and the willingness of the people who with determination and hard work motivate others to menginiasi formation of financial institutions in the form of cooperatives. Cooperatives are assessed in accordance with various conditions in the area of Puncu village. This cooperative is more precisely in the form of Sharia Financing Savings and Loan Cooperatives (KSPPS), because the problems faced by the local community are funding problems in the development of their business.

The cooperative is established in the respective working area of Kediri Regency, so administrative requirements such as principal savings, deposit proof of capital ownership to be deposited to the Government Bank, and aspects of registration of the Cooperative Legal Entity, all of them can be completed in Kediri Regency.

5. After the authorized financial institution operates, the next step is supervision and assistance in a sustainable manner. This requires the synergy of several elements, starting from the local community, of course, the Village Management Board, the Cooperative Office, the Industry and

Trade Office, and from the academic circles. Coordinative Systems interwoven between these institutions, agencies, and local communities can continue and result in far greater benefits both in the same field and in other areas.

Based on the results of the research described in the previous section, it can be described discussion and compiled model of business development with maqashid syariah approach as the following figure:



**Figure 4.** Financing Model To Develop Local Commodity Business East Java in Maqashid Syariah Perspective

Business development model based on empowerment using maqashid syariah perspective as figure 4, at least divided into several parts groove.

## CONCLUSION

### 1. Conclusion

Based on the formulation of the problem, research objectives, research methodology and results and discussions that have been reviewed in the previous section, it can be concluded related to the financing model to develop local commodity business maqashid syariah perspective. The conclusions are:

- i. The financing model to develop the local commodities business in east java is not only to develop the material part, but also to place the human as the subject and its main object to be involved in the business development process.
- ii. A commodity business indicator that develops based on the perspective of maqashid syariah is the preservation of worldly and *ukhrowi maslahah*.
- iii. *Ukhrowi maslahah* is the preservation of the need to carry out religious duties, and the sustainability of business life, while the worldly maslahah is the existence of the assets of assets used for business activities and able to maintain the continuity of business activities so avoid the poverty and misery.

### 2. Suggestions

Cooperation is required partners willing to provide assistance access to capital and marketing, besides the government is demanded more active in networking with partners. Also, by the existence of education or understanding efforts about the products of Islamic financial institutions, it can be support the business to develop.

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