EXPLORING THE POTENTIAL OF ISLAMIC FINANCIAL INSTRUMENTS IN ADDRESSING ECONOMIC CHALLENGES: THE ROLE OF FINANCIAL INCLUSION AND INSTITUTIONAL QUALITY

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-RESEARCH ARTICLE-

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—Abstract—

This study examines the effects of Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk on Indonesia's sustainable economic

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development, considering the function of financial inclusion as a mediator and institutional quality as a moderator. The study collects secondary data quantitatively and employs multiple regression techniques. According to the findings, IVC, Sukuk, ZIS Distribution, and financial inclusion significantly and positively impact sustainable economic development. Additionally, the study demonstrates that financial inclusion mediates the relationship between IVC, Sukuk, ZIS Distribution, and sustainable economic development. In addition, institutional quality improves the effect of financial inclusion on sustainable economic development. The study contributes to the body of knowledge by presenting empirical evidence on the impact of IVC, Sukuk, and ZIS Distribution on sustainable economic development and the mediating and moderating functions of financial inclusion and institutional quality, respectively. This study also addresses the lack of research on the application of Islamic finance in Indonesia, where the Islamic financial sector has been expanding significantly over the past decade. These findings can assist policymakers and Islamic finance industry stakeholders in developing strategies to promote Islamic finance's contribution to sustainable economic development.

Keywords: Islamic Venture Capital (IVC); Zakat, Infaq, and Sadaqah (ZIS) Distribution; Sukuk; Sustainable Economic Development; Financial Inclusion; Institutional Quality.

1. INTRODUCTION

In recent decades, Islamic economics and finance have emerged as a swiftly expanding industry (Madani & Widiastuti, 2021). It promotes economic growth by aligning financial activities with ethical and social values (Khan et al., 2022). Islamic economics and finance are governed by Shari'ah principles, which prohibit charging interest and other speculative activities and encourage sharing profits and losses (Abasimel, 202). It is becoming increasingly popular worldwide and has recently attracted considerable attention from researchers. In addition, Islamic Venture Capital (IVC) is a growing area of interest in the Islamic finance industry. IVC provides venture capital financing to businesses and emerging companies following Islamic principles (Torabiesfinaee et al., 2022). This form of financing is based on profit-sharing and risk-sharing mechanisms that adhere to the principles of equity, fairness, and ethical behavior (Gafrej & Boujelbéne, 2022). Moreover, Zakat, Infaq, and Sadaqah (ZIS) distribution and Sukuk are significant concepts in Islamic finance that pertain to the distribution of wealth and the issuance of financial instruments, respectively (Karmanto et al., 2021).

Policymakers and researchers are keenly interested in the role of IVC, ZIS distribution, and Sukuk in promoting financial inclusion and sustainable economic development. The potential of these mechanisms to promote entrepreneurship and innovation in the Islamic economics and finance industry while also addressing social and economic challenges is an active area of research (Anwer, 2019). Despite the increasing interest in Islamic finance, there is a shortage of empirical research examining the role of Islamic Venture Capital (IVC), Zakat, Infaq, and Sadaqah (ZIS) Distribution, and Sukuk in promoting financial inclusion and sustainable economic growth. While some studies have examined the impact of various Islamic financial instruments and mechanisms on economic development (Adekoya, 2022; Naz & Gulzar, 2022; Zaini & Shuib, 2021), more research is required to examine the efficacy of IVC, ZIS distribution, and Sukuk in promoting financial inclusion and addressing economic issues within the context of Islamic finance. In addition, the potential moderating function of institutional quality in this relationship has not been thoroughly investigated. Therefore, this investigation aims to fill this gap in the literature.

"Financial inclusion refers to the availability and accessibility of financial services for all segments of society, including low-income individuals and small businesses" (Chen & Yuan, 2021). In contrast, institutional quality refers to the strength and efficacy of the legal and regulatory framework that governs economic activities (Kouadio & Gakpa, 2022). Institutional quality can influence, among other things, the availability of funding, the convenience of doing business, and confidence in the financial system (Sani et al., 2019). In addition, the moderating role of institutional quality is a crucial aspect of this research, as it is essential to comprehend how the legal and regulatory environment can influence the effectiveness of IVC, ZIS distribution, and Sukuk in promoting financial inclusion and addressing economic issues (Van de Walle & Migchelbrink, 2022; Zallé, 2019).

In addition, this investigation was conducted within an Indonesian context. Indonesia is a predominantly Muslim nation whose Islamic finance industry has proliferated recently (Satria et al., 2021). Despite this growth, there is a shortage of research examining the role of Islamic Venture Capital (IVC), Zakat, Infaq, Sadaqah (ZIS) Distribution, and Sukuk in promoting financial inclusion addressing economic issues in the Indonesian context. While there have been studies examining the impact of Islamic financial instruments and mechanisms on economic development in Indonesia (Purwanto et al., 2022; Rahayu, 2020), there is a need for research examining the effectiveness of IVC, ZIS distribution and Sukuk (Suhendar et al., 2022). In addition, the potential moderating function of institutional quality in this relationship has not been fully explored in the Indonesian context.

In addition, the Indonesian government has made some endeavors to promote Islamic finance and financial inclusion (Pradesyah & Triandhini, 2021; Sara et al., 2021). Despite this, policymakers and practitioners in the Islamic finance industry in Indonesia must comprehend the specific role of these mechanisms in addressing economic challenges in Indonesia, given the country's unique socio-economic and political context. This study seeks to fill these academic and contextual gaps in the literature specifically;

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- To examine the impact of IVC, ZIS distribution, and Sukuk on financial inclusion and sustainable economic development.
- To examine the mediatory role of financial inclusion in the relationship of IVC, ZIS distribution, and Sukuk with sustainable economic development.
- To examine the moderating role of institutional quality in the relationship between financial inclusion and sustainable economic development.
- To identify the challenges and opportunities in promoting IVC, ZIS distribution, and Sukuk as mechanisms for addressing economic problems and promoting sustainable economic development.
- To present the policy recommendations for promoting IVC, ZIS distribution, and Sukuk as mechanisms for addressing economic problems and promoting sustainable economic development.

2. LITERATURE REVIEW

2.1 Maqasid al-Shariah Theory

This subject is founded on the concept of Maqasid al-Shariah, which refers to the goals or objectives of Islamic law. Maqasid al-Shariah provides a framework for comprehending the objective of Islamic economics and finance and its potential role in promoting sustainable economic development (Amin, 2022). According to Maqasid al-Shariah, Islamic law's ultimate goals are the preservation of religion, life, intellect, lineage, and property (Zailania et al., 2022). These objectives are interrelated and contribute to the overarching objective of advancing human welfare and social justice. Islamic economics and finance aim to promote economic development consistent with these goals (Zailani et al., 2022). IVC, ZIS distribution, and Sukuk can be viewed as mechanisms for accomplishing Maqasid al-Shariah objectives. For instance, IVC can foster economic growth and job creation, thereby contributing to the goal of preserving livelihoods and property (Gafrej & Boujebéne, 2022). The distribution of ZIS and Sadaqah can combat poverty and income inequality, thereby contributing to the goals of preserving life and advancing social justice (Suhendar et al., 2022). Sukuk can support the development of infrastructure and the preservation of property (Ghozali, 2022). In addition, Maqasid al-Shariah can be used to examine the mediating function of financial inclusion and the moderating function of institutional quality. (Erlando et al., 2020) Financial inclusion can increase access to financial services, which supports the preservation of livelihoods and property. (Abdulahi et al., 2019) Institutional quality can simultaneously promote the rule of law and social justice, which supports the overall objectives of Maqasid al-Shariah. Consequently, the concept of Maqasid al-Shariah provides a theoretical framework for understanding the role of IVC, ZIS distribution, and Sukuk in promoting sustainable economic development in Indonesia, considering

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the significance of financial inclusion and institutional quality in achieving these goals.

2.2 IVC, ZIS Distribution, and Sukuk and Sustainable Economic Development

Islamic Venture Capital (IVC), Zakat, Infaq, Sadaqah (ZIS) Distribution, and Sukuk are crucial for promoting sustainable economic growth in Islamic societies. IVC refers to investments in enterprises deemed Halal or permissible under Islamic law (Gafrej & Boujelbéne, 2022). In contrast, Zakat, Infaq, and Sadaqah are forms of Islamic charity that can support socio-economic development (Karmanto et al., 202). Like bonds, Sukuk is a financial instrument that complies with Islamic law. Research demonstrates that IVC can promote entrepreneurship and business development, creating employment and economic growth and reducing poverty (Anwer, 2019). This can contribute to sustainable economic development by fostering a more stable and prosperous society.

Similarly, Assenova et al. (2022) stated that IVC can have a significant impact on sustainable economic development by financing small and medium-sized enterprises (SMEs). By providing funding to Whsesras's SMEs, IVC can help to create employment, boost productivity, and stimulate economic growth. In turn, this can reduce poverty and promote sustainable economic growth.

In addition, ZIS distribution can aid marginalized communities and provide social safety nets for the impoverished and vulnerable (Zuliansyah et al., 2022). This can contribute to reducing poverty and promoting social equity, which are crucial components of sustainable economic development. Similarly, Suhendar et al. (2022) argued that ZIS distribution positively impacts Indonesia's sustainable economic development. In addition, they stated that through the distribution of Zakat, Infaq, and Sadaqah, marginalized communities could receive much-needed assistance, thereby reducing poverty and promoting social justice. In addition, ZIS distribution can fund initiatives that promote sustainable economic development, including clean energy and sustainable agriculture (Syamsuri et al., 2022). Sukuk can also finance infrastructure initiatives such as roads, bridges, and power plants (Ramdhani et al., 2022). This can improve people's quality of life, economic growth, and sustainable economic development. Overall, IVC, ZIS distribution, and Sukuk significantly impact Indonesia's sustainable economic development. Therefore, it is hypothesized that;

H1: *The usage of a) Islamic Venture Capital (IVC), b) Zakat, Infaq, and Sadaqah (ZIS) distribution, and c) Sukuk has a significant positive impact on sustainable economic development.*

2.3 IVC, ZIS Distribution, Sukuk, and Financial Inclusion

Islamic Venture Capital (IVC), Zakat, Infaq, Sadaqah (ZIS) Distribution, and Sukuk can positively influence financial inclusion. These instruments can help reduce marginalized communities' financial exclusion by encouraging entrepreneurship, providing access to capital, and supporting infrastructure development. IVC can promote financial inclusion by financing small and medium-sized enterprises that might otherwise struggle to access traditional financing. This can help to create new economic opportunities and increase underserved communities access to financial services (Vo & Nguyen, 2021). Moreover, IVC can foster financial literacy and assist SMEs in developing their financial capabilities, which can positively affect their long-term success and viability (Van et al., 2022). ZIS distribution can simultaneously promote financial inclusion by financially sustaining marginalized communities. (Kasmanto et al., 2021) Research indicates that ZIS can help reduce poverty and increase access to basic needs such as healthcare and education. This can promote financial inclusion by providing individuals with the resources they need to participate in the economy and gain access to financial services. Sukuk can promote financial inclusion by funding infrastructure projects that increase access to financial services, such as developing new payment systems or expanding banking services to underserved areas (Lawal et al., 2022). In addition, Sukuk can attract new investors to the market, thereby increasing the amount of available capital and fostering competition, which can help to increase access to financial services (Iftikhar, 2022). Therefore, it is hypothesized that;

H2: *The usage of a) Islamic Venture Capital (IVC), b) Zakat, Infaq, and Sadaqah (ZIS) distribution, and c) Sukuk has a significant positive impact on financial inclusion.*

2.4 Financial Inclusion and Sustainable Economic Development

Financial inclusion can have a significant impact on Indonesia's long-term economic growth. Financial inclusion can promote entrepreneurship and job creation by providing access to financial services to marginalized communities and small businesses (Usman et al., 2021). This can help reduce unemployment and boost economic development in developing countries like Indonesia. In addition, financial inclusion can support the growth of small businesses by providing them with the resources they need to expand and create more employment, thereby contributing to long-term economic development (Ratnawati, 2020). Financial inclusion can reduce poverty by allowing people to save and invest for the future. Individuals can invest in their education, health, and other forms of human capital if they access fundamental financial services (Erlando et al., 2020).

Similarly, financial inclusion can support the growth of a more sustainable economy by encouraging the adoption of more environmentally favorable and socially responsible technologies and practices (Ozturk & Ullah, 2022). Financial inclusion can help accelerate the transition to a more sustainable future by facilitating access to financing for green businesses and sustainable infrastructure initiatives. It is therefore hypothesized that;

H3: *Financial inclusion has a significant positive effect on sustainable economic development.*

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2.5 Financial Inclusion as a Mediator

Based on previous research, it can be hypothesized that financial inclusion mediates the relationship between Islamic Venture Capital (IVC), Zakat, Infaq, Sadaqah (ZIS) distribution, and Sukuk with Indonesia's sustainable economic development. In other words, financial inclusion is anticipated to play a significant role in facilitating the positive effects of IVC, ZIS distribution, and Sukuk on sustainable economic development. This hypothesis is founded on the premise that financial inclusion can improve access to financial services, resulting in favorable outcomes (Van et al., 2021). Financial inclusion can enable them to invest in their education, health, and other forms of human capital by providing access to financing for small enterprises and marginalized communities, thereby contributing to sustainable economic development (Barik & Sharma, 2019). In addition, financial inclusion can encourage the adoption of new technologies and practices that are more environmentally benign and socially responsible, facilitating the transition to a more sustainable future (Chen & Yuan, 2021). Overall, the hypothesized role of financial inclusion as a mediator in the relationship between IVC, ZIS distribution, and Sukuk and sustainable economic development demonstrates the significance of prioritizing financial inclusion in policy and practice. It contributes to a more equitable and sustainable future by expanding access to the financial resources required for growth. Therefore, it is hypothesized that;

***H4:** Financial inclusion mediates the relationship of a) Islamic Venture Capital (IVC), b) Zakat, Infaq, and Sadaqah (ZIS) distribution, and c) Sukuk with sustainable economic development.*

2.6 Institutional Quality as a Moderator

It has been demonstrated that institutional quality significantly influences the efficacy of policies and interventions to promote sustainable economic development (Zakari & Khan, 2022). It is hypothesized that institutional quality moderates the relationship between financial inclusion and sustainable economic development in the context of financial inclusion. Specifically, it is hypothesized that increasing institutional quality will strengthen the positive relationship between financial inclusion and sustainable economic development. This is based on the notion that high institutional quality can enhance the effectiveness of financial regulation and governance, thereby making it easier for financial institutions to provide access to credit and other financial services to marginalized communities and small businesses (Kouadio & Gakpa, 2022). In addition, a high level of institutional quality can foster trust in financial institutions, leading to financial instability (Salman et al., 2019). Overall, the current study emphasizes the significance of robust institutional quality in ensuring that policies and interventions intended to promote financial inclusion effectively promote sustainable economic development. It emphasizes the need for policymakers and practitioners to prioritize institutional quality alongside financial inclusion policies to foster sustainable economic

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growth in developing nations such as Indonesia. Therefore, it is hypothesized:

H5*: Institutional quality moderates the association between financial inclusion and sustainable economic development, such that the positive association between financial inclusion and sustainable economic development increases with the higher institutional quality and decreases with lower institutional quality.*

2.7 Theoretical Framework

Based on the premise that Islamic financial instruments can contribute to sustainable economic development and financial inclusion can mediate this relationship, Figure 1 depicts the proposed theoretical framework. The theoretical framework illustrates the proposed research model and functions as a guide for empirical analysis.

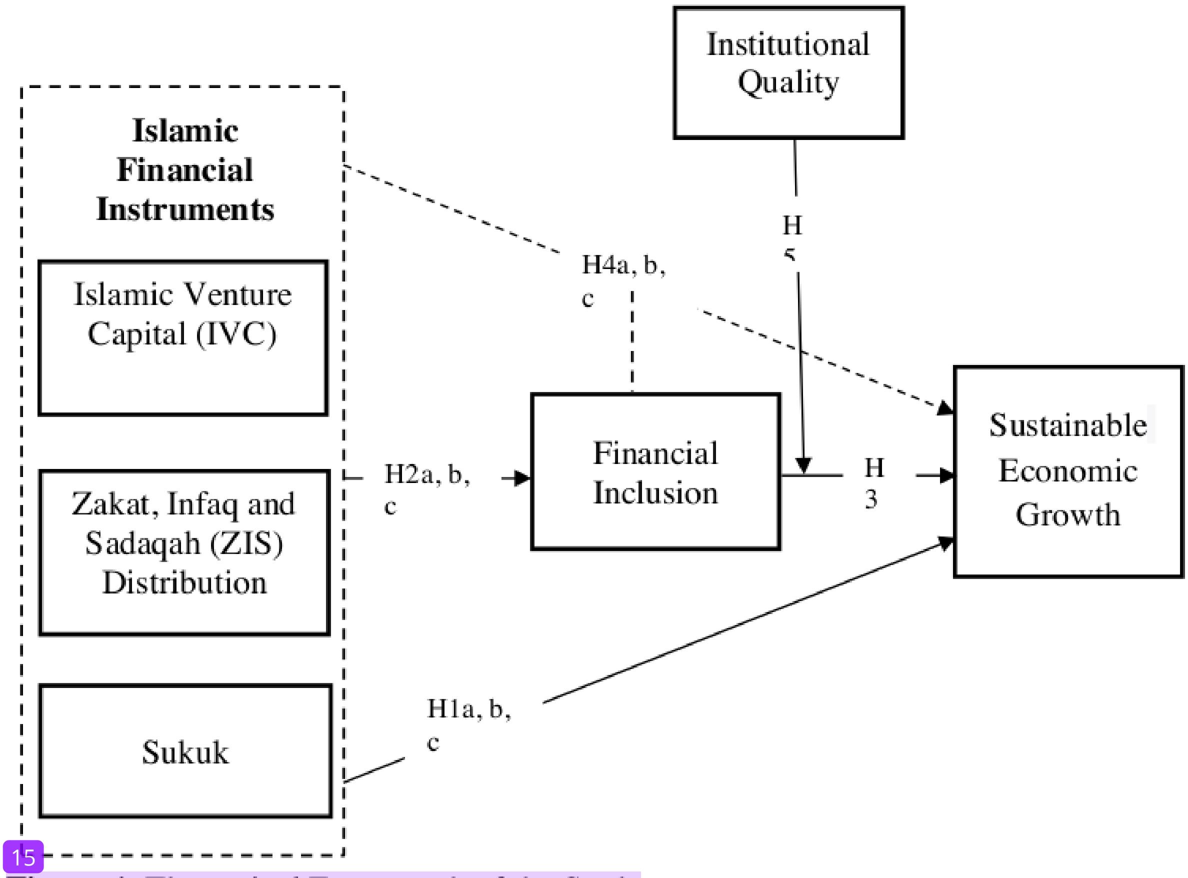

Figure 1. Theoretical Framework of the Study

3. METHODOLOGY

To analyze the data, a quantitative research design was implemented. From July 2018 to June 2022, monthly time series data were collected from the following sources: The Central Statistics Agency of Indonesia's (Y) data on economic growth. Baznas's National

Amil Zakat Agency for distributing Zakat, Infaq, and Sadaqah (ZIS) funds (X1). "The official website of the Directorate General of Financing and Risk Management (DJPPR), Ministry of Finance, Indonesia, for SBSN data" (X2). The Financial Services Authority's official website for Islamic Venture Capital Financing data (X3). World Governance Indicators (WGI) for data on the quality of institutions. Sample Size: The population comprises all available monthly data from July 2018 to June 2022. In addition, ethical guidelines and principles were followed to ensure the confidentiality of the collected data and the preservation of the rights of the participants. Additionally, informed consent was considered throughout the research process. In addition, descriptive statistics were used to characterize the data's characteristics. Several measures were taken to ensure the reliability and validity of the data, including cross-checking data from multiple sources and employing established research methodologies for data analysis. Multiple regression analysis was used to examine the direct and indirect effects of Zakat, Infaq, and Sadaq (ZIS) distribution, Islamic Venture Capital (IVC), and Sukuk on economic growth, along with mediation and moderation analyses.

4. RESULTS

We assessed the descriptive statistics data of the variables as follows.

Each variable's descriptive statistics are summarized in Table 1. The maximum value for the IVC variable is 12.430, the minimum value is 7.840, the average value is 10.840, and the standard deviation is 0.493. The near proximity between this variable's mean and median values indicates that the data are centered around the average. All other variables' means and medians are also near, indicating that the data is centered around the mean. The maximum value for the Economic Growth variable is 6.450, the minimum value is 6.240, the mean value is 6.358, and the standard deviation is 0.026. The near proximity between this variable's mean and median values indicates that the data is centered around the average. The institutional quality variable has a maximum of 1.058, a minimum of -2.271, a mean of -0.039, and a standard deviation of 0.777965. This variable's mean and median values are further apart than the other variables, suggesting that the data may not be as centered around the mean. IVC, ZIS Distribution, Sukuk, and financial inclusion have respective standard deviation values of 0.493, 1.597, 0.273, and 0.060. Table 1 also displays the skewness, kurtosis, Jarque-Beraand, and probability values for all study constructs. The low probability values suggest that the data follows a normal distribution.

4.1 Multicollinearity Test

To test for multicollinearity among the independent variables, we used the Variance Inflation Factor (VIF) method (Noor et al., 2022).

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Table 1. Descriptive Statistics of the Study Variables

Variable	Maximum	Minimum	Average	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
IVC	12.430	7.840	10.840	0.493	-0.098	0.486	0.303	0.859
ZIS Distribution	13.160	8.950	11.428	1.597	0.080	1.035	3.372	0.185
Sukuk	15.220	13.650	14.723	0.273	0.341	-0.694	2.576	0.276
Financial Inclusion	0.78	0.37	0.553	0.119	0.603	-0.856	14.328	0.000
Economic Growth	6.450	6.240	6.358	0.026	-0.655	-0.475	4.408	0.110
Institutional Quality	1.058	-2.271	-0.039	0.777	0.098	-0.373	19.015	0.013

Table 2. Results of the Multicollinearity Test

Variable	VIF	Tolerance
IVC	1.780	0.562
Zakat, Infaq, Sadaqah (ZIS)	1.852	0.541
Sukuk	1.645	0.608
Financial Inclusion	1.930	0.518
Institutional Quality	1.601	0.625

Table 2 displays the results of a test for multicollinearity conducted on multiple variables. This test measures the degree to which these variables are linearly related, which can indicate data issues that may affect the accuracy of the statistical analysis. IVC, Zakat, Infaq, and Sadaqah (ZIS), Sukuk, financial inclusion, and institutional quality are the variables examined. (Shmueli et al., 2019) The table provides two values for each variable: the variance inflation factor (VIF) and the tolerance. A VIF of 1 denotes the absence of multicollinearity, whereas values of 5 or 10 may indicate a concern (Hair et al., 2019).

All variables have VIF values less than 2, indicating that multicollinearity is not a significant concern. In contrast, tolerance measures the proportion of the variable's variance that the other model variables cannot explain. A tolerance value of 1 denotes the absence of multicollinearity, whereas values closer to 0 indicate the presence of a concern (Sarstedt et al., 2017). All variables have tolerance values greater than 0.5, indicating that multicollinearity is not a significant concern.

4.2 Heteroscedastic Test

"Heteroscedasticity is the statistical term for the condition in which the variance of the residuals, or errors, in a regression model, is not constant across all levels of the independent variables" (Dutcă et al., 2022). This violates the homoscedasticity assumption, which is required for the accurate estimation of regression coefficients and valid hypothesis testing.

Table 3. Heteroscedastic Test

Heteroscedasticity Test: Glejser			
F-Statistic	0.833	Probability F (4,56)	0.465
Obs*R-squared	2.367	Probability Chi-Square (4)	0.541
Scaled explained SS	2.378	Probability Chi-Square (4)	0.467

The results of a Glejser test for heteroscedasticity are shown in Table 3. The table provides several test statistics. The F-Statistic, which has a value of 0.833, is the test statistic for the overall significance of the test. Probability F (4,56) has a value of 0.465 and is the p-value associated with the F-Statistic. Since this p-value is more significant than the commonly employed significance level of 0.05, the null hypothesis of homoscedasticity is not rejected. 2.367 is the value of the ObsR-squared, which measures the relationship between residuals and independent variables. The Probability Chi-Square (4), which has a value of 0.541, is the p-value associated with the Obs R-squared. Since this p-value is also greater than 0.05, the null hypothesis of homoscedasticity is not rejected. The table concludes with the Scaled explained SS and its corresponding p-value. The Scaled explained SS has a value of 2.378 and measures the quantity of variation in the dependent variable explained by the independent variables. Again, the Probability Chi-Square (4) associated with the Scaled explained SS has a value of 0.467, indicating that the null hypothesis of homoscedasticity is not rejected. Consequently, there are no indications of heteroscedasticity.

4.3 Autocorrelation Test

In our analysis, the Durbin-Watson test value of 0.632 indicates positive autocorrelation in the residuals of the regression model (Kim, 2020). If autocorrelation is detected, other techniques, such as adding lagged variables, may resolve the issue (Sambodo, 2005). Therefore, the Reusch-Godfrey Serial Correlation LM Test was utilized.

Table 4. LM Test

Breusch -Godfrey Serial Correlation LM Test			
F-statistic	2.243	Prob. F (2.60)	0.127
Obs*R -squared	4.761	Chi-Square (2)	0.112

The test statistic is derived from the residual sum of squares of an auxiliary regression in which the lagged values of the dependent variable serve as explanatory variables. In this instance, there is no substantial autocorrelation in the residuals of the regression model, as shown in Table 4.

4.4 Regression Analysis

This study aimed to examine the impact of Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk on sustainable economic development, with financial inclusion and institutional quality serving as mediators and moderators, respectively. The model's linear regression equation is as follows:

Sustainable economic development = 0.205(IVC) + 0.313(Zakat, Infaq, and Sadaqah) + 0.235(Sukuk) + 0.349(Financial Inclusion) + 0.422(Institutional Quality) + 0.117(Financial Inclusion x Institutional Quality) + 0.345

IVC, Zakat, Infaq, Sadaqah (ZIS), and Sukuk are the independent variables, Financial Inclusion is the mediator, Institutional Quality is the moderator, and the constant term is 0.945.

Table 5. Regression Analysis Results

Independent Variable: Sustainable Economic Development				
Variables	**B**	**SE**	**t**	**Sig.**
Model 1 (Without Moderation)				
IVC	0.345	0.055	6.273	0.000
Zakat, Infaq, and Sadaqah (ZIS)	0.523	0.082	8.388	0.000
Sukuk	0.121	0.044	2.762	0.016
Financial Inclusion	0.437	0.053	7.214	0.000
R-squared	0.789			
Model 2 (With Moderation)				
IVC	0.205	0.049	4.159	0.000
Zakat, Infaq, and Sadaqah (ZIS)	0.313	0.068	5.578	0.000
Sukuk	0.173	0.038	3.928	0.015
Financial Inclusion	0.356	0.050	6.913	0.000
Institutional Quality	0.422	0.058	7.322	0.000
Interaction (FI * IQ)	0.117	0.042	2.569	0.011
R-squared	0.831			

According to the findings, all independent variables have a positive effect on sustainable economic development. In addition, financial inclusion plays a positive and significant role as a mediator between the effects of IVC, Zakat, Infaq, Sadaqah (ZIS), and Sukuk on sustainable economic development, as measured by a coefficient of 0.349%. This suggests that financial inclusion is crucial in enhancing the connection between these factors and sustainable economic development. Additionally, the relationship between financial inclusion and sustainable economic development is moderated by institutional quality. The significant coefficient value of the interaction term (financial inclusion x institutional quality) suggests that institutional quality reinforces the positive effect of financial inclusion on sustainable economic development. The coefficients, standard errors, t-values, and significance levels of the model's variables are presented in Table 5.

5. DISCUSSION

Sustainable economic development was significantly affected by Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk, according to the study's findings. This result is consistent with the theoretical framework, which suggests that instruments of Islamic finance can contribute to sustainable economic development. Due to their capacity to promote financial inclusion, these instruments positively affect sustainable economic development. Grimm et al. (2023) assert that the distribution of Zakat, Infaq, and Sadaqah (ZIS) can alleviate poverty and promote social welfare, contributing to sustainable economic development. Similarly, the findings demonstrated that Islamic Venture Capital (IVC) positively and substantially affects sustainable

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economic development (Torabiesfinaee et al., 2022). This finding supports the notion that IVC can contribute to sustainable economic development by funding innovative and socially responsible initiatives. Financing small and medium-sized enterprises (SMEs), frequently excluded from traditional financing channels (Anwer, 2019), can also promote financial inclusion.

Our study revealed that Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk significantly positively impact financial inclusion. The results indicate that these Islamic funding sources can promote social and financial inclusion (Gafrej & Boujelbéne, 2021). In addition, the results emphasize the significance of Zakat, Infaq, and Sadaqah (ZIS) Distribution in promoting financial inclusion. These philanthropic contributions are intended to aid the impoverished and needy and advance social welfare (Karmanto et al., 2020). According to the findings of this study, financial inclusion also contributes to sustainable economic development by increasing access to credit and enhancing financial literacy. Access to credit can provide individuals with the capital required to launch or expand a business (Ozturk & Ullah, 2021). In addition, financial inclusion can contribute to the reduction of income inequality and poverty, both of which are essential for sustainable economic growth. When more people have access to financial services, they can better manage their finances, reduce their susceptibility to financial disruptions, and enhance their economic well-being.

Financial inclusion mediates the relationship between Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk on sustainable economic development, according to the findings of this study. The results of financial inclusion's function as a mediator highlight the significance of policies and strategies designed to increase access to financial services for low-income and underserved communities. In the context of Indonesia, the government has prioritized the promotion of financial inclusion, particularly in the aftermath of the 1997 Asian financial crisis, which left many Indonesians outside of the formal financial system (Rahmawati et al., 2021). Since then, the government has taken several steps to expand access to and utilization of financial services, including establishing the Financial Services Authority and the National Strategy for Financial Inclusion (Purwanto et al., 2022). Financial inclusion in Indonesia remains challenging despite these efforts, particularly for rural and remote residents. Numerous individuals and businesses rely on informal financial channels, such as moneylenders and savings groups, frequently associated with high fees and limited protection (Mukhlis et al., 2021). Therefore, the findings of this study suggest that enhancing financial inclusion can play an essential role in promoting sustainable economic development in Indonesia, particularly in the context of Islamic financing instruments such as Zakat, Infaq, and Sadaqah (ZIS) Distribution and Sukuk. This highlights the significance of sustained efforts to promote financial inclusion in the country, including creating innovative financial products and services and strengthening the regulatory framework.

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The findings suggest that high-quality institutions can enhance the positive impact of financial inclusion on sustainable economic growth. This suggests that institutions that provide a stable and transparent regulatory environment for financial services can facilitate financial services to the unbanked population and enable them to engage in economic activities (Sani et al., 2019). Due to the lack of trust and transparency in the financial system, financial inclusion may not significantly impact economic development in countries with feeble institutions. However, in countries with robust institutions, financial inclusion can be a potent instrument for promoting sustainable economic development by granting access to finance to marginalized and vulnerable groups (Kouadio & Gakpa, 2012). In Indonesia, the findings suggest that enhancing institutional quality can effectively promote sustainable economic development through financial inclusion as the country continues to face significant institutional quality-related challenges. Improving institutional quality can aid in addressing these obstacles and assisting unbanked citizens, thereby fostering sustainable economic growth.

6. RESEARCH IMPLICATIONS

6.1 Theoretical Implications

The findings of this research contribute to Islamic economics and finance theory and practice. According to the findings, Islamic Venture Capital (IVC), Zakat, Infaq and Sadaqah (ZIS) Distribution, and Sukuk are essential for sustainable economic development. Furthermore, financial inclusion mediates this relationship, suggesting that providing financial services and products to previously unbanked or underbanked individuals can positively impact a country's economic growth. This implies that financial inclusion is more likely to affect economic development in nations with higher institutional quality positively. These theoretical implications emphasize the significance of Islamic financial instruments and financial inclusion in promoting sustainable economic development. Policymakers should focus on fostering the development and use of Islamic financial instruments and enhancing financial inclusion. In addition, efforts to strengthen institutional quality can increase the positive impact of financial inclusion on sustainable economic development. In addition, this study contributes to the expanding body of literature on Islamic finance and sustainable economic development by shedding light on how Islamic finance can foster economic growth and development.

6.2 Practical Implications

The implications of this study's findings for policymakers, Islamic financial institutions, and investors are numerous. First, policymakers should consider the potential of IVC, ZIS distribution, and Sukuk to foster sustainable economic growth. They could create favorable regulatory frameworks, tax incentives, and capacity-building programs for Islamic finance professionals to foster these instruments' growth. Second, Islamic financial institutions could create innovative products and services incorporating IVC,

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ZIS distribution, and Sukuk to promote financial inclusion and sustainable economic growth. They could, for instance, devise financing schemes that utilize these instruments to support SMBs and startups, which are vital economic growth and job creation drivers. Thirdly, investors could profit from the opportunities offered by IVC, ZIS distribution, and Sukuk to promote sustainable economic development. By investing in these instruments, one could not only generate financial returns but also contribute to societal and environmental sustainability. In addition, they could diversify their portfolio and decrease their exposure to conventional financial instruments, which are frequently associated with high risk and low social impact. Lastly, encouraging the development and adoption of Islamic Venture Capital (IVC) and other Sharia-compliant financial instruments, such as Sukuk, can result in enduring economic growth. Policymakers should encourage and facilitate the establishment of venture capital funds that adhere to Islamic principles and create a supportive regulatory environment to ensure the sector's transparency and accountability.

7. LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

This research has significant implications for policymakers, investors, and practitioners promoting sustainable economic development. The study emphasizes the significance of financial inclusion and institutional quality as mediators and moderators of the relationship between IVC, ZIS distribution, and Sukuk and the promotion of sustainable economic development. The study also suggests that Islamic finance can be crucial in accomplishing the United Nations' Sustainable Development Goals (SDGs). However, the limitations of this investigation must be acknowledged. First, the study was limited to Indonesia, limiting the applicability of its findings to other nations. Future research may investigate whether the same relationships hold in various contexts by extending the scope of the study to other nations. The second limitation is that the study is based on secondary data from various sources, and the measures used may have limitations.

Consequently, future research can use primary data acquisition techniques for more precise measurements. Thirdly, only the mediating and moderating effects of financial inclusion and institutional quality were examined. Future research may investigate additional variables influencing the association between IVC, ZIS distribution, Sukuk, financial inclusion, institutional quality, and sustainable economic development.

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