

The Effectiveness of Sharia Financing in Enhancing Financial Inclusion

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Abstract

Financial inclusion is an important aspect in sustainable economic development, especially for community groups that have not been reached by conventional financial services. Sharia finance has emerged as an alternative that has the potential to increase financial inclusion through various sharia-based financing products, such as murabahah, mudharabah, musyarakah, and ijarah. This study aims to review the effectiveness of sharia financing in increasing financial inclusion in Indonesia using a literature review method. The results of the study indicate that sharia financing plays a significant role in supporting the growth of micro, small, and medium enterprises (MSMEs), improving community welfare, and expanding access to formal financial services. However, challenges such as low sharia financial literacy, limited accessibility, and suboptimal regulations are still the main obstacles. Therefore, strategies to improve education, utilize sharia fintech, and provide stronger policy support are needed to accelerate the growth of sharia-based financial inclusion in Indonesia.

Keyword : Financial inclusion, Islamic finance, MSMEs, Islamic fintech, financial literacy

INTRODUCTION

Financial inclusion is one of the main pillars of sustainable economic development. This concept emphasizes broader access to formal financial services for all levels of society, particularly those who have been underserved by the conventional financial system. With increased financial inclusion, individuals and small business owners can gain access to various financial products such as savings, credit, insurance, and investment, ultimately improving economic well-being. In Indonesia, financial inclusion still faces various challenges, particularly in reaching communities in remote areas and groups with low financial literacy. Therefore, various approaches continue to be implemented to accelerate the penetration of financial services, including through the Sharia-based financial system.

Sharia finance has grown rapidly over the past few decades and has become an essential instrument in the national financial system. As the country with the largest Muslim population in the world, Indonesia has significant potential to develop the Sharia finance industry, which not only offers products based on Sharia principles but also aims to provide more inclusive financial solutions. Sharia financing is one of the key elements in promoting financial inclusion, as it offers more flexible and diverse transaction mechanisms in line with Islamic principles, such as the prohibition of *riba* (usury) and the implementation of profit-sharing systems. Various Sharia financing products such as *murabahah*, *mudharabah*, *musyarakah*, and *ijarah* have been widely used by the public as alternative financing options that align with Sharia values.

The effectiveness of Sharia financing in enhancing financial inclusion remains a subject of debate and requires further study. Several factors influence this effectiveness, including supportive regulations, adequate financial infrastructure, and the level of Sharia financial literacy among the public. Additionally, public perception of Sharia financing plays a crucial role in determining the adoption rate of these services. On one hand, the Sharia financial system is considered more ethical and transparent as it prioritizes principles of justice and social welfare.

However, on the other hand, there are still challenges such as limited access to Sharia financial services in certain regions and a lack of public understanding of Sharia financial products.

This study aims to review various literatures discussing the effectiveness of Sharia financing in improving financial inclusion in Indonesia. Through this literature review, the key factors contributing to the success of Sharia financing in expanding financial service access will be identified, along with the challenges and opportunities in its development. By understanding these aspects, more effective strategies can be formulated to promote Sharia-based financial inclusion, ultimately delivering a more significant impact on national economic growth and overall societal well-being.

RESEARCH METHODS

This study employs a qualitative method with a literature review approach to analyze the effectiveness of Sharia financing in enhancing financial inclusion. This approach involves collecting, reviewing, and analyzing various relevant literature sources, such as scientific journals, books, research reports, and data from financial institutions and regulatory authorities. The study focuses on previous research that explores the relationship between Sharia financing and financial inclusion, both in Indonesia and in other countries that implement Sharia financial systems.

The data used in this study is derived from secondary literature that has been published and is accessible both academically and publicly. The selection criteria for the literature are based on relevance to the research topic, the novelty of information, and the credibility of the sources. The collected data is then analyzed descriptively using a comparative approach, by comparing various findings from previous studies to obtain a more comprehensive understanding of the effectiveness of Sharia financing in promoting financial inclusion.

Furthermore, this study also identifies factors that contribute to the success or challenges in implementing Sharia financing. The analysis is conducted by examining various variables that influence the effectiveness of Sharia financing, such as regulations, financial literacy, public perception, and Sharia financial infrastructure. Through this approach, the study provides broader insights into the extent to which Sharia financing has contributed to expanding access to financial services, particularly in Indonesia.

Table 1. Summary of Journals Related to the Effectiveness of Sharia Financing in Financial Inclusion

| No | Author Name | Year | Discussion | Conclusion |
|----|--------------------------|------|--|--|
| 1 | Rohmawati Kusumaningtias | 2021 | The role of BMT in increasing Islamic financial inclusion and empowering MSMEs | BMT plays an important role in increasing financial access for MSMEs and encouraging local economic growth. |
| 2 | Nelly Kurniasih | 2020 | Analysis of the effectiveness of financial inclusion at BMT Syariah Sejahtera | BMT services are effective in increasing financial inclusion, but still face obstacles to sharia financial literacy. |
| 3 | Rian Pratama | 2022 | Sharia financial inclusion program for small entrepreneurs | Sharia-based microfinance can improve the welfare of small entrepreneurs, |

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|----|-----------------------------|------|--|--|
| | | | | especially through KSPPS BMT. |
| 4 | Aspar & Rahmawati | 2019 | The role of Islamic banks in financial inclusion in Indonesia | Islamic banks play a major role in financial inclusion, but need to be supported by stronger regulations. |
| 5 | Dwi Andini | 2021 | Effectiveness of micro KUR financing in developing MSMEs | Sharia-based KUR is effective in helping MSMEs develop, especially with a fairer profit-sharing scheme. |
| 6 | Wilda Dinda Pratiwi | 2023 | The influence of Islamic financial inclusion on MSME financing and economic growth | Sharia financial inclusion contributes to economic growth, but financial literacy education is still needed. |
| 7 | Laila Nur Azizah | 2020 | The role of Islamic financial institutions in improving the community's economy | Financial literacy and sharia financial inclusion can improve people's economic welfare. |
| 8 | Dita Nur Amaliatul Chusniah | 2022 | Sharia financial inclusion strategy in community economic empowerment | Sharia fintech can be an effective solution to increase access to sharia finance for the wider community. |
| 9 | Fadilah Ramadhani | 2021 | Literature study on the role of Islamic banking financing in empowering MSMEs | Sharia banking financing can be an inclusive solution for MSMEs, especially in facing economic challenges. |
| 10 | Aspar | 2019 | Analysis of the role of Islamic banks in financial inclusion in Palopo City | Islamic banks have had a positive impact on financial inclusion in the regions, but there are still limitations in access. |

RESULTS AND DISCUSSION

Results

Based on the literature review conducted, it can be concluded that Sharia financing plays a significant role in enhancing financial inclusion, particularly in Indonesia. From the summary of reviewed journals, several key findings have been identified:

The Role of BMT in Financial Inclusion

Studies by Rohmawati Kusumaningtias (2021) and Nelly Kurniasih (2020) indicate that Baitul Maal wat Tamwil (BMT) plays a crucial role in providing financial access to micro, small, and medium enterprises (MSMEs). BMT offers flexible financing services that comply with

Sharia principles, although it still faces challenges related to Sharia financial literacy among the public.

Sharia-Based Microfinance

Rian Pratama (2022) and Dwi Andini (2021) highlight the effectiveness of Sharia-based microfinance programs in improving the well-being of small entrepreneurs. The Sharia People's Business Credit (KUR Syariah) has proven to help MSMEs grow with a profit-sharing scheme that is considered fairer compared to the conventional interest-based system.

The Role of Sharia Banks in Financial Inclusion

Research by Aspar & Rahmawati (2019) and Aspar (2019) in Palopo City shows that Sharia banks have a positive impact on financial inclusion. However, challenges still exist in regulations and service accessibility, especially in remote areas.

The Contribution of Sharia Fintech

Dita Nur Amaliatul Chusniah (2022) identifies Sharia fintech as an effective solution for expanding Sharia financial access to a broader community. Digital platforms enable individuals who were previously excluded from conventional financial services to easily access Sharia financing.

Impact on the Economy and Community Welfare

Wilda Dinda Pratiwi (2023) and Laila Nur Azizah (2020) find that Sharia financial inclusion contributes to economic growth and community welfare. However, they also emphasize the importance of education and Sharia financial literacy improvement to ensure broader benefits for society.

Discussion

Effectiveness of Sharia Financing in Increasing Financial Inclusion

Sharia financing has proven effective in increasing financial inclusion, especially in the MSME sector. Products such as murabahah, mudharabah, musyarakah, and ijarah allow individuals and small business actors to obtain financing without being tied to an interest system that is often considered burdensome. The profit-sharing scheme also provides fairer benefits for customers and financial institutions.

Obstacles in the Implementation of Sharia Financing

Despite having great potential, sharia financing still faces several challenges, including:

- **Lack of Sharia Financial Literacy:** Many people do not yet deeply understand the concept and mechanism of sharia financing, so they are still reluctant to switch from the conventional system.
- **Limited Accessibility:** Sharia financial services are not evenly distributed, especially in rural and remote areas.
- **Suboptimal Regulation:** Policies are still needed that better support the growth of sharia finance in order to compete with the conventional financial system.

Opportunities and Strategies for Developing Sharia Financing

To increase the effectiveness of sharia financing in financial inclusion, several strategies that can be implemented include:

- Increasing Sharia Financial Literacy: Public education through seminars, workshops, and digital media can help improve understanding of sharia finance.
- Development of Sharia Financial Technology (Sharia Fintech): Digitalization of sharia financial services can expand reach and facilitate access to communities that have not been reached by formal financial institutions.
- Stronger Regulatory Support: The government needs to encourage more supportive policies, such as incentives for sharia banks and sharia financial institutions to expand their services.
- Collaboration with Various Parties: Collaboration between sharia banks, fintech, and the government can accelerate the increase in sharia-based financial inclusion.

Sharia financing has great potential in increasing financial inclusion in Indonesia. Sharia-based financing products have helped MSMEs develop, supported economic growth, and improved community welfare. However, there are still several obstacles that need to be overcome, especially related to financial literacy, service accessibility, and supporting regulations. Therefore, a more effective strategy is needed in developing sharia financing so that it can provide broader benefits to the community and the national economy as a whole.

CONCLUSION

This study highlights the important role of Islamic financing in increasing financial inclusion in Indonesia. Based on the literature review conducted, it can be concluded that Islamic financing has contributed significantly to expanding financial access, especially for micro, small, and medium enterprises (MSMEs). Financing products such as murabahah, mudharabah, musyarakah, and ijarah provide a fairer and sharia-compliant alternative compared to conventional financial systems.

The effectiveness of Islamic financing still faces several challenges. The lack of Islamic financial literacy is a major obstacle in increasing the adoption of this service in the community. In addition, limited access to Islamic financial services, especially in remote areas, and suboptimal regulations are also obstacles that need to be addressed immediately.

To overcome these obstacles, several strategies can be implemented to increase the effectiveness of Islamic financing in financial inclusion. These strategies include increasing Islamic financial literacy through education and socialization, developing Islamic financial technology (Islamic fintech) to expand the reach of services, and stronger regulatory support from the government. In addition, collaboration between Islamic banks, fintech, and the government is also a strategic step in accelerating the growth of sharia-based financial inclusion. Overall, sharia financing has great potential in supporting financial inclusion and improving the welfare of the people in Indonesia. With a more effective strategy and support from various parties, it is hoped that the sharia financial system can have a broader impact on the national economy and reach more people who have not been served by the formal financial system.

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