

THE CONTRIBUTION OF ISLAMIC BANKING TO FINANCIAL INCLUSION AND POVERTY ALLEVIATION IN INDONESIA

Norma Sari¹, Putri Mayang Sari², Dewi Ratnasari³,

1,2,3, Accounting Study Program, Faculty of Economics, Universitas Borneo Tarakan, Tarakan, Indonesia

**Corresponding email: normasari911@gmail.com*

ARTICLE INFORMATION

Article History:

Received 21 January, 2026

Revised 20 February, 2026

Published 25 April, 2026

Keyword:

financial inclusion, poverty,
Islamic banking, empowerment,
financing.

ABSTRACT

Abstract: Islamic banking plays a strategic role in expanding financial inclusion and alleviating poverty in Indonesia. With operating principles grounded in justice and partnership, Islamic banks provide financing products aligned with Islamic values, such as mudharabah, musyarakah, and murabahah, which can reach low-income communities without burdening them with interest. In addition, the management of social funds such as zakat, infaq, sadaqah, and waqf by Islamic banks strengthens the social capital used to support micro-enterprises and poverty-alleviation empowerment programs. However, significant challenges remain, including limited access in remote areas, low Islamic financial literacy, and regulations that still need to be refined so that Islamic banking can operate inclusively and innovatively. This qualitative study, using a literature review approach, highlights the importance of collaboration among the government, regulators, financial institutions, and the community to improve literacy, expand access, and develop innovative sharia-based products. Thus, Islamic banking has the potential to become an effective instrument for promoting the economic welfare of the poor in Indonesia.

Corresponding Author:

Norma Sari

Accounting Study Program,

Universitas Borneo Tarakan, Tarakan, Indonesia

Email: normasari911@gmail.com

Introduction

Banks perform a vital function in collecting funds from the public through various forms of savings, which are then channeled back to those who need funds, within a predetermined period (Kurnialis et al., 2022). This role is crucial in mobilizing economic resources and supporting overall economic growth (Afifah & Ardyansyah, 2023). As an entity integrated within the banking system, Islamic banks have a fundamental distinction compared to conventional banks, based on operations that align with sharia principles derived from the Qur'an and Hadith (Layn & Kasben, 2023). These principles prohibit elements considered unethical or harmful in financial transactions, such as *riba* (interest), *gharar* (uncertainty), and *maisir* (excessive speculation). The elimination of these elements is then replaced with traditional Islamic contracts (*akad*) (Yenti et al., 2021).

In the Indonesian context, Islamic banking has experienced quite significant growth over the past two decades, both in terms of assets, branch networks, and the number of customers (Hasanah, 2023). Nevertheless, its role in promoting financial inclusion and poverty alleviation has not been optimal. Conditions on the ground show that most poor people, micro-enterprise operators, and vulnerable groups still lack adequate access to formal financial services, including sharia-based services. In fact, normatively, the sharia financial system is designed not only to seek financial profit but also to empower the community through the principles of justice, partnership, and social welfare (Layn & Kasben, 2023). This access disparity indicates a gap between the ideal objectives of Islamic banking and its operational reality in Indonesia. Other facts show that Islamic banking in Indonesia still tends to prioritize commercial products such as *murabahah* (buy-sell) financing over more social and participatory schemes such as *qardh* (interest-free loans),

mudharabah, and musyarakah. Meanwhile, the integrative role between the commercial and social functions through the utilization of zakat, infaq, sadaqah, and waqf funds by Islamic banks remains very limited. In fact, collaboration between these commercial and social functions has great potential in systematically addressing poverty. This shows that Islamic banking has not yet optimally realized its strategic role as a catalyst for inclusive and just development.

A number of previous studies have indeed highlighted the potential of Islamic banking in expanding financial inclusion and supporting poverty alleviation. For example, a study by Ascarya (2012) concluded that Islamic financial institutions have instruments that are highly relevant for reaching the poor and informal communities. However, most of these studies remain normative or limited to local case studies. There is still a lack of empirical studies measuring the actual contribution of Islamic banking within a national context, let alone studies that directly link it to poverty-reduction indicators and the expansion of financial access. This creates a gap in the literature that is important to fill in order to gain a more comprehensive understanding.

This study aims to fill that gap using an approach that combines quantitative and qualitative analysis in assessing the contribution of Islamic banking to financial inclusion and poverty alleviation. The novelty of this study lies in its effort to juxtapose the institution's financial performance with the social impact it generates, while also exploring the structural, regulatory, and cultural obstacles faced by Islamic banking in expanding financial access for vulnerable groups. This study will also map the extent to which Islamic bank products and services have reached the poor and evaluate their effectiveness in sustainably improving their welfare.

The urgency of this study is further strengthened in the context of post-COVID-19 economic recovery and the government's commitment to the National Strategy for Financial Inclusion (SNKI). As the country with the largest Muslim population in the world, Indonesia has a moral and strategic responsibility to develop a sharia financial system that is not only stable and growing, but also fair and inclusive. Thus, this study is not only academically important but also practically relevant as input for public policy, financial product innovation, and institutional strategies of Islamic banks. The results of this study are expected to strengthen the role of Islamic banking as a primary instrument in economic development grounded in social justice and Islamic values.

Literature Review

Banking

Banking encompasses all aspects related to banks, including institutions, operational activities, and methods of conducting business. In Indonesia, banking operates on the basis of economic democracy and applies the principle of prudence. The main role of banking is to collect and channel funds from the public to support national development, with the aim of increasing equitable development, economic growth, and national stability in order to improve the welfare of the wider community. Banking also holds an important position in supporting the smooth operation of the payment system, the implementation of monetary policy, and maintaining the stability of the financial system, so a healthy, transparent, and accountable banking institution is required.

According to Kasmir (2014b), a bank is a company that operates in the financial sector, so that all of its activities are related to the financial sector. The main activities of a bank are collecting funds from the public and channeling them back, as well as providing various other banking services. Meanwhile, Law of the Republic of Indonesia No. 10 of 1998 concerning Banking states that a bank is a business entity that collects funds from the public in the form of deposits and channels these funds back to the public in the form of credit or other forms with the aim of improving the welfare of the community. Banks act as intermediaries between parties with a surplus of funds and parties in need of funds. In addition, banks also provide financing services and support the smooth operation of the payment system for various sectors of the economy (Bukit, 2019).

Islamic Banking

According to Article 1, paragraph (1) of Law No. 21 of 2008 concerning Islamic Banking, Islamic banks cover everything related to Islamic banks and sharia business units, including institutional structure, business activities, and the procedures and processes of their implementation. In principle, Islamic banks have the same function as commercial banks, namely as companies operating in the financial sector, so their activities are always related to finance. However, what distinguishes Islamic banks is that in carrying out their activities, both in collecting and channeling funds, these banks provide returns based on sharia principles, such as buying and selling and profit sharing (Kasmir, 2014a). Islamic banking upholds core principles such as the prohibition of interest (riba), transactional uncertainty (gharar), and speculative practices (maysir). In addition, this system also emphasizes aspects of justice, transparency, and social responsibility (Muhajil et al., 2024).

Islamic banks operate based on sharia principles derived from Islamic teachings. In this system, the concept of interest is not used in providing services to either depositors or borrowers. The services provided by Islamic banks are adjusted to Islamic legal principles. Several financing principles applied include profit-sharing financing (mudharabah), capital participation (musyarakah), buy-and-sell financing with an agreed profit margin (murabahah), as well as financing based on pure lease without option (ijarah) or lease with an option to transfer ownership of the leased goods (ijarah muntahiyah bittamlik).

Financial Inclusion

Financial inclusion refers to a condition in which individuals and business entities obtain adequate access and the ability to effectively and affordably utilize financial products and services that suit their needs (Kusuma et al., 2021). Financial inclusion is a strategic instrument in encouraging the creation of inclusive economic growth, which can gradually reduce socio-economic disparities and play a significant role in poverty-alleviation efforts within society (Holle, 2019). In the context of Islamic banking, financial inclusion also encompasses the provision of services that align with Islamic principles so that the Muslim community feels comfortable and benefits from them (Muhajil et al., 2024). The management of Islamic social funds—zakat, infaq, sadaqah, and waqf—can be synergized with Islamic banking to strengthen the social function of the sharia financial network in alleviating poverty. However, implementation faces several challenges, including the community's low level of sharia financial literacy, limited inclusive products, and regulations that do not yet fully provide support (Vera & Rayyan, 2025).

The Role of Islamic Banking in Poverty Alleviation

Islamic banking has instruments with great potential to empower the poor through fair, interest-free financing, such as qardh al-hasan and profit-sharing financing (Ascarya, 2012).

Research Method

This study uses a qualitative method with a library research approach. The literature study was conducted by collecting, analyzing, and interpreting various relevant written sources, such as books, scientific journals, laws and regulations, and academic documents discussing the role and contribution of Islamic banking in improving financial inclusion and alleviating poverty in Indonesia. The data used in this study come from secondary sources including: legal and economic literature, such as laws related to Islamic banking and financial inclusion; books and scientific journals discussing the concept and implementation of Islamic banking and poverty-alleviation programs; and official documents and reports from financial authorities such as the Financial Services Authority (OJK), Bank Indonesia, and related research institutions. The analysis was carried out using a descriptive-analytical method, namely by describing the findings from the various literature reviewed, then

critically analyzing them to gain an in-depth understanding of the contribution of Islamic banking to improving financial inclusion and alleviating poverty in Indonesia, as well as identifying the challenges and opportunities in its implementation.

Analysis and Discussion

The Role of Islamic Banking in Improving Financial Inclusion

Islamic banking holds great potential for expanding financial inclusion in Indonesia, particularly among Muslim communities who have tended to be reluctant to use conventional banking services for religious-principle reasons. In this context, Islamic banking products such as mudharabah (profit sharing), musyarakah (capital partnership), and murabahah (buy-and-sell with an agreed profit margin) offer financing alternatives more in line with the Islamic financial values and principles held by these communities. The availability of these products not only provides easier access to financing for those who previously felt hesitant or uncomfortable with the conventional interest system, but also encourages them to participate more actively in the formal financial system. Thus, Islamic banking becomes an important bridge connecting communities that have not been reached by conventional banking services with various financial facilities that can support their economic activities.

The presence of sharia business units within conventional banks, as well as purely Islamic banking institutions, has expanded service coverage to various regions, particularly in areas that have not previously had adequate access to formal financial services. This is highly crucial given that many communities in remote and peripheral areas remain suboptimally integrated into the national financial system. This limited access is often influenced by complex economic, social, and cultural factors, requiring a special approach that is sensitive to local community conditions. With the presence of Islamic banking, which places greater emphasis on the principles of justice and partnership, communities in these areas have greater opportunities to obtain fair and transparent financing, which can then be used to develop businesses, increase income, and ultimately contribute to improving their welfare.

The Contribution of Islamic Banking to Poverty Alleviation

Islamic banking does not merely function as an ordinary financial institution but also as a strategic instrument for the economic empowerment of the poor. Through financing mechanisms grounded in the principles of justice and partnership, Islamic banking offers financial solutions that are friendly to segments of society that have long struggled to access business capital. Financing products such as mudharabah and musyarakah provide opportunities for low-income communities to obtain business capital without having to bear interest, which is often burdensome and has the potential to worsen their financial condition. The profit-sharing system applied in such financing allows the risk of loss to be shared fairly between the bank and the customer, thereby reducing the pressure on customers in meeting payment obligations. In this way, entrepreneurial spirit can grow more healthily, with communities feeling supported to develop their businesses sustainably without unrealistic financial burdens.

Islamic banking also plays a role in managing social funds sourced from zakat, infaq, sadaqah, and waqf. These social funds constitute highly potential social capital for strengthening the economic base of poor communities, as they can be allocated in a structured manner for various poverty-alleviation programs. For example, a study conducted by Dewi et al. (2023) found that before the murabahah financing program from BTPN Syariah, many women in Srengat Subdistrict, Blitar Regency, experienced difficulty accessing formal financial services, mainly due to the absence of collateral and low financial literacy. Most of them came from underprivileged families and only had small businesses, or had not even started a business due to limited capital. This condition

made it difficult for women to become economically independent and contribute to household income, making them part of a poverty cycle that was difficult to break. These social and economic barriers were exacerbated by gender inequality in access to education and entrepreneurship training.

After the murabahah financing program was implemented by BTPN Syariah, there was a significant improvement in the economic empowerment of female customers. Through collateral-free financing schemes, regular mentoring, and entrepreneurship training, customers were able to start or develop productive businesses such as small grocery stores, catering, mushroom cultivation, and coconut sugar production. Access to this financing not only increased their income and standard of living but also created social effects such as increased self-confidence, women's more active role in household decision-making, and a reduction in local poverty rates. This program proves that empowerment-based sharia financing can be an effective instrument in promoting economic independence and social inclusion among poor women.

Obstacles and Challenges in Optimizing the Role of Islamic Banking

Despite its great potential, Islamic banking in Indonesia faces various obstacles in optimizing its role. One of the main challenges is the low level of financial literacy and inclusion in general, which is exacerbated by limited specific understanding of sharia-based products. This causes some poor or vulnerable communities to remain reluctant to use Islamic banking products. In addition, government regulations and policies supporting Islamic banking still need to be continuously improved and adjusted to be more flexible in meeting the needs of the poor and micro-enterprise operators. Islamic banking also faces competition from conventional banking, which has already dominated the market and has a wider network. Internal factors of Islamic banks, such as a lack of product innovation, services that are not yet fully accommodating to lower-income segments, and human-resource capacity that still needs improvement, are also challenges in their own right. Therefore, collaboration among regulators, banking practitioners, and other stakeholders is crucial to creating an inclusive and sustainable Islamic banking ecosystem.

Strategies and Policies to Strengthen the Role of Islamic Banking in Financial Inclusion and Poverty Alleviation

To optimize the contribution of Islamic banking to financial inclusion and poverty alleviation, a range of comprehensive strategies and policies is needed.

1. Massive and continuous improvement of financial literacy and sharia education, particularly in areas with high poverty rates and low financial access.
2. Innovation of products and services that are more suited to the needs of the poor and micro-enterprise operators, such as easily accessible, flexible micro-financing without burdensome collateral requirements. The development of Islamic financial technology (fintech) can also serve as a solution for reaching communities that are difficult to reach conventionally.
3. Strengthening government regulations and incentives so that Islamic banking becomes more competitive and can operate optimally. The government can encourage the integration of Islamic social funds (zakat, infaq, waqf) with Islamic banking services as part of poverty-alleviation programs.
4. Enhancing the human-resource capacity and governance of Islamic banks so they can provide quality and innovative services. Synergy among the government, financial institutions, and the community is essential to realizing an inclusive financial system based on sharia principles that makes a real contribution to poverty alleviation.

Conclusion

Islamic banking plays an important role in expanding financial access in Indonesia, particularly for communities that have long been underserved by the conventional financial system. With principles grounded in Islamic teachings, such as profit sharing, partnership, and justice, Islamic banking offers an alternative that aligns with the social and cultural values of Muslim communities. This enables financial inclusion to expand further across various layers of society, including vulnerable and poor groups that have long been difficult for conventional banks to reach. Through various sharia-based financing products, communities not only gain access to capital but also gain protection from interest practices considered morally and economically burdensome.

Islamic banking also contributes significantly to poverty-alleviation efforts. By providing fair financing through mechanisms such as mudharabah and musyarakah, Islamic banks help the poor and micro-enterprise operators develop their businesses without excessive cost burdens. This approach supports sustainable economic empowerment. In addition, the management of social funds such as zakat, infaq, sadaqah, and waqf, integrated with Islamic banking, further strengthens efforts to empower the poor. These funds can be utilized as social capital that helps improve community welfare in a more structured and professional manner compared to traditional social assistance.

One of the main obstacles is the low level of financial literacy and community understanding of sharia products, particularly in remote areas and communities with limited access to information. In addition, regulations and supportive policies that are not yet fully adequate cause Islamic banking to be unable to operate at its maximum potential and remain competitive compared to conventional banking. Internal obstacles such as limited product innovation, services that are not yet fully inclusive, and human-resource capacity are also factors that require serious attention. Therefore, synergy among the government, Islamic banking institutions, and various stakeholders is needed to overcome these obstacles.

Suggestions

1. Expanding the Scope and Location of Research

Future research is recommended to cover a broader area or focus on specific regions to obtain a more representative picture of the contribution of Islamic banking to financial inclusion and poverty alleviation.

2. Use of Diverse Methods and Approaches

It is recommended to combine qualitative and quantitative approaches so that research results are more comprehensive, including field data analysis, interviews, and real case studies.

3. Deeper Examination of Factors Affecting Effectiveness

Future research could focus more on examining internal and external factors that affect the effectiveness of Islamic banking, such as financial literacy, product innovation, regulation, and customer behavior.

References

- Afifah, A., & Ardyansyah, F. (2023). Analisis Minat Masyarakat Berinvestasi Emas Melalui Produk Pembiayaan Cicil Emas di Bank Syariah Indonesia Menggunakan Pendekatan Theory of Planned Behavior. *Al-Kharaj: Jurnal Ekonomi, Keuangan & Bisnis Syariah*, 5(6), 2879–2900.
- Ascarya, Y. D. (2012). Analisis Efisiensi Perbankan Syariah Di Indonesia Dengan Metode Data Envelopment Analysis (Dea) (Studi Kasus 7 Bank Syariah. *TAZKIA Islamic Finance and Business Review*, 1(2).
- Bukit, A. N. (2019). Pertanggungjawaban Bank Terhadap Hak Nasabah Yang Dirugikan Dalam Pembobolan Rekening Nasabah (Studi Di Pt. Bank Rakyat Indonesia Tbk, Kantor Cabang Medan Gatot Subroto). *Jurnal Ius Constituendum*, 4(2), 181–194.
- Dewi, I., Oktafia, R., & Nisa, F. (2023). Implementasi Pembiayaan Murabahah pada BTPN Syariah untuk Pengentasan Kemiskinan Melalui Pemberdayaan Ekonomi Nasabah Perempuan. *Management Studies and Entrepreneurship Journal (MSEJ)*, 4(5). <https://journal.yrpioku.com/index.php/msej/article/view/2614>
- Hasanah, I. (2023). Merger Bank Syariah BUMN: Strategi Peningkatan Pangsa Pasar Keuangan Syariah. *Banque Syar'i: Jurnal Ilmiah Perbankan Syariah*, 9(1), 117–130.
- Holle, M. H. (2019). Inklusi keuangan; solusi pengentasan kemiskinan guna daya saing perekonomian bangsa. *Amal: Jurnal Ekonomi Syariah*, 1(2). <https://jurnal.iainambon.ac.id/index.php/amal/article/view/1257>
- Kasmir. (2014a). Bank dan Lembaga Keuangan Lainnya. Edisi Revisi. In *Peranan Laporan Keuangan Dalam Kebijakan Pemberian Kredit Kepada Calon Nasabah Pada Pt.*
- Kasmir. (2014b). Pengertian Bank Menurut Para Ahli. *Elibrary.Unikom.Ac.Id.*
- Kurnialis, S., Uliya, Z., Aulasiska, M., & Nizam, M. S. (2022). Perkembangan Perbankan Syariah Di Negara Muslim. *Syarikat: Jurnal Rumpun Ekonomi Syariah*, 5(2), 109–119.
- Kusuma, M., Narulitasari, D., & Nurohman, Y. A. (2021). Inklusi Keuangan Dan Literasi Keuangan Terhadap Kinerja Dan Keberlanjutan Umkm Di Solo Raya. *Among Makarti*, 14(2). <https://doi.org/10.52353/ama.v14i2.210>
- Layn, Y. Y., & Kasben, A. F. (2023). Faktor-faktor yang mempengaruhi minat menabung mahasiswa di bank syariah (Studi Empiris Pada Mahasiswa Fakultas Ekonomi dan Bisnis Universitas Pattimura). *Jurnal Lentera Akuntansi*, 8(1), 131–140.
- Muhajil, A., Asril, A., & Azhar, Z. (2024). Peran dan tantangan perbankan syariah dalam sistem keuangan global. *JIMMI: Jurnal Ilmiah Mahasiswa Multidisiplin*, 1(1), 13–23.
- Vera, D. A., & Rayyan, F. (2025). Akuntansi Syariah dan Pengentasan Kemiskinan dalam Menciptakan Kesenjangan Sosial di Indonesia. *AREAI: Jurnal Ekonomi Dan Keuangan Islam*, 6(2). <https://journal.areai.or.id/index.php/SANTRI/article/view/990>
- Yenti, E., Handayani, S. D., & Fitria, N. (2021). Pengaruh Financing To Deposit Ratio Terhadap Return On Asset Pada PT. BPR Syariah Al-Makmur Limbanang Kabupaten Lima Puluh Kota Periode 2012-2019. *JAKSy: Jurnal Akuntansi Syariah*, 1(1), 79–92.