PAPUA: International Journal of Sharia Business Management
https://e-journal.iainfmpapua.ac.id/index.php/papua/
Volume 3, Nomer 2, Desember 2026

Islamic Financial Inclusion and Socioeconomic Development: Evidence from Muslim Communities

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Abstract: Islamic financial inclusion has increasingly become an important instrument for promoting socioeconomic development among Muslim communities. Beyond providing access to financial services, it offers an ethical financial framework that emphasizes social justice, equitable resource distribution, and economic empowerment in accordance with Islamic principles. This study aims to analyze the role of Islamic financial inclusion in improving household welfare, strengthening productive economic activities, and supporting inclusive socioeconomic development. This research employs a qualitative descriptive-analytical approach based on academic literature, institutional reports, and relevant regulatory documents. The data are analyzed thematically by examining financial accessibility, Islamic financial literacy, institutional trust, productive financing, and the integration of Islamic commercial and social finance. The analysis indicates that Islamic financial inclusion can contribute to poverty reduction, household economic resilience, and microenterprise development by expanding access to Sharia-compliant financial services and productive financing opportunities. Furthermore, the integration of Islamic banking, microfinance, zakat, waqf, and other social finance instruments can strengthen economic participation among disadvantaged communities. However, these contributions depend on institutional governance, public financial literacy, digital accessibility, and effective coordination among relevant stakeholders. This study highlights that Islamic financial inclusion should be positioned not merely as an effort to expand financial access but as a comprehensive mechanism for promoting economic justice, social welfare, and sustainable socioeconomic development among Muslim communities.

Keywords: Islamic Financial Inclusion; Socioeconomic Development; Financial Literacy; Islamic Microfinance; Muslim Communities.

INTRODUCTION

Financial inclusion has increasingly been recognized as an essential component of socioeconomic development because access to appropriate financial services enables

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individuals and households to manage financial resources, accumulate savings, obtain financing, conduct transactions, and respond to economic uncertainties. Beyond access to formal financial institutions, financial inclusion concerns the effective use of financial products and services that can improve economic opportunities and household welfare. In this context, access to financial services is particularly important for low-income households, women, microentrepreneurs, and communities living in underserved areas, which often experience structural barriers to participating in the formal economy. The World Bank (2022) emphasizes that financial inclusion contributes to economic resilience by expanding access to accounts, digital payments, savings, and borrowing facilities. Nevertheless, the availability of financial services does not automatically guarantee meaningful socioeconomic benefits, since financial literacy, affordability, institutional accessibility, and the capacity to use financial products remain important determinants of effective inclusion.

Within Muslim communities, financial inclusion has a distinctive dimension because financial decisions may be influenced not only by economic considerations but also by religious values and principles. Islamic financial inclusion refers to the availability and effective utilization of financial products and services that comply with Islamic principles, particularly the prohibition of riba (interest), gharar (excessive uncertainty), and maysir (gambling or speculation). These principles distinguish Islamic financial inclusion from conventional approaches by emphasizing ethical transactions, risk-sharing arrangements, social justice, and the equitable distribution of economic resources. Islamic financial institutions, including Islamic banks, microfinance institutions, and Islamic social finance organizations, therefore have the potential to provide financial services that respond to the religious preferences and socioeconomic needs of Muslim populations. Barajas and Massara (2015) explain that religious considerations can influence financial exclusion in Muslim-majority countries, indicating that the availability of Islamic banking services may provide an alternative for individuals who avoid conventional banking for religious reasons. However, the expansion of Islamic financial institutions must also be accompanied by improvements in service accessibility and actual utilization to ensure that financial inclusion produces meaningful economic outcomes.

The relationship between Islamic financial inclusion and socioeconomic development can be understood through several interconnected mechanisms. First, access to Islamic financial services can facilitate household financial management by providing Sharia-compliant savings, financing, and payment facilities. Second, access to business financing can support micro, small, and medium-sized enterprises (MSMEs), particularly those operated by

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individuals with limited access to conventional credit. Third, financial inclusion can strengthen economic participation by enabling households and entrepreneurs to engage in productive activities, develop businesses, and improve their income-generating capacity. These mechanisms suggest that Islamic financial inclusion should not be evaluated solely through the number of Islamic bank accounts or financial institutions but also through its contribution to productivity, economic opportunities, and household welfare. In this regard, Islamic finance has a broader developmental orientation because its ethical foundations emphasize economic justice, social responsibility, and the avoidance of exploitative financial practices.

Empirical research has increasingly demonstrated the relevance of Islamic financial inclusion to poverty reduction and human development. Novreska and Arundina (2024), using provincial panel data from 33 Indonesian provinces during 2014–2022, found that Islamic financial inclusion significantly contributed to poverty reduction and improvements in human development, although its relationship with income inequality was statistically insignificant. Their findings also indicate that the effects of Islamic financial inclusion vary according to regional human development conditions. This evidence suggests that access to Islamic financial services can contribute to socioeconomic improvement, but its effectiveness may depend on the broader institutional and socioeconomic environment in which financial services operate. Similarly, Ali et al. (2019) developed an Islamic Financial Inclusion Index for Indonesia based on accessibility, availability, and usage dimensions. Their findings identified relatively low levels of Islamic financial inclusion at the national level, highlighting the need to strengthen the reach and utilization of Islamic banking services.

Furthermore, financial inclusion is closely associated with financial literacy, digital capability, and the capacity of individuals to make informed financial decisions. The availability of Sharia-compliant financial products may remain insufficient when members of Muslim communities lack adequate knowledge of Islamic financial principles, financing mechanisms, and financial risk management. Marla et al. (2024) demonstrate the relevance of Islamic financial literacy, financial technology, digital finance, and social capital in strengthening Islamic financial inclusion in Banda Aceh. Their findings indicate that financial literacy can support the development and utilization of digital financial services, suggesting that inclusion requires more than the physical presence of financial institutions. In addition, research by Novreska and Arundina (2024) highlights the relationship between Islamic financial inclusion, poverty reduction, and human development, while research on Muslim households in East Java also identifies financial inclusion, financial literacy, education, and

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financial planning as relevant factors associated with productivity and Islamic welfare (see Antecedents of Islamic welfare, 2024). These findings reinforce the importance of integrating financial education, digital accessibility, and appropriate financial products into Islamic financial inclusion strategies.

The development of digital technology has further expanded the opportunities for strengthening financial inclusion among Muslim communities. Digital banking, mobile financial applications, electronic payment systems, and financial technology platforms can reduce geographical barriers, lower transaction costs, and improve access to financial services for individuals who are underserved by conventional financial infrastructure. These developments are particularly relevant for microentrepreneurs and households in rural and semi-urban areas, where physical access to financial institutions may be limited. Nevertheless, digital transformation also creates challenges, including unequal internet access, limited digital literacy, cybersecurity risks, and differences in the ability to use financial technology. The World Bank (2025), through the Global Findex Database, highlights the importance of digital connectivity and the persistent differences in financial access and usage among population groups. Consequently, digital Islamic financial inclusion requires an integrated approach that combines technological infrastructure, consumer protection, financial literacy, and Sharia compliance.

Despite these developments, the relationship between Islamic financial inclusion and socioeconomic development remains complex. Access to financial services does not necessarily translate into higher household income, reduced poverty, or improved economic independence when financial products are unaffordable, financing is not directed toward productive activities, or beneficiaries lack the capacity to manage financial resources. In addition, the development of Islamic finance must address the unequal distribution of financial infrastructure, institutional limitations, and differences in financial literacy across communities. Barajas and Massara (2015) indicate that the expansion of Islamic banking access in Organization of Islamic Cooperation (OIC) countries does not always correspond to an equivalent increase in the utilization of financial services. This distinction demonstrates that financial inclusion should be assessed through accessibility, availability, and actual usage rather than institutional expansion alone. Therefore, the socioeconomic contribution of Islamic financial inclusion depends on the extent to which financial services are accessible, relevant, affordable, and capable of supporting productive economic activities.

Although previous studies have examined Islamic financial inclusion in relation to poverty alleviation, income inequality, financial literacy, and human development, further

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analysis is needed to understand how these dimensions interact in shaping socioeconomic development among Muslim communities. Existing empirical research has provided important evidence at the national and regional levels, particularly in Indonesia. However, the broader relationship between access to Sharia-compliant financial services, financial capability, digital utilization, productive economic participation, and improvements in community welfare requires a more integrated perspective. In particular, it is important to consider financial inclusion not merely as access to Islamic banking but as a broader socioeconomic process involving Islamic microfinance, digital financial services, and other Sharia-compliant financial instruments. This perspective provides an opportunity to examine how Islamic financial inclusion can contribute to economic participation and improve the welfare of communities that have traditionally experienced financial exclusion.

Based on this background, this study aims to examine the role of Islamic financial inclusion in supporting socioeconomic development among Muslim communities. It focuses on the relationship between access to Sharia-compliant financial services, financial literacy, digital financial utilization, and economic empowerment, particularly in relation to poverty reduction, household welfare, and productive economic participation. The study is expected to contribute to the development of Islamic economics literature by positioning Islamic financial inclusion as both a financial access mechanism and an instrument for improving socioeconomic welfare. Practically, the findings are expected to provide insights for Islamic financial institutions, policymakers, and community development organizations in designing more accessible, inclusive, and sustainable financial programs. Ultimately, Islamic financial inclusion should be understood not only as an effort to expand access to financial services but also as a means of strengthening economic capabilities, promoting social justice, and supporting sustainable socioeconomic development within Muslim communities.

RESEARCH METHOD

This study employs a qualitative descriptive-analytical approach to examine the relationship between Islamic financial inclusion and socioeconomic development among Muslim communities. A qualitative approach is considered appropriate because the study seeks to understand the institutional, social, economic, and financial dimensions of Islamic financial inclusion rather than merely measure the statistical relationship between financial access and economic outcomes. The research focuses on how access to Sharia-compliant financial services, financial literacy, digital financial utilization, and productive economic participation contribute to poverty reduction, household welfare, and socioeconomic

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empowerment. The qualitative approach enables the researcher to interpret these relationships within the broader framework of Islamic economic principles and inclusive development (Creswell & Poth, 2018).

The study relies on secondary data obtained through documentary research. The data consist of peer-reviewed journal articles, academic books, research reports, institutional publications, and relevant policy documents concerning Islamic financial inclusion and socioeconomic development. Particular attention is given to publications addressing Islamic banking, Islamic microfinance, financial literacy, digital financial services, poverty alleviation, income distribution, and community economic empowerment. Relevant institutional sources include publications from the World Bank, the International Monetary Fund, and Islamic financial regulatory and development institutions. The literature is selected based on its relevance to the research objectives, academic credibility, methodological clarity, and contribution to understanding Islamic financial inclusion. Both theoretical and empirical publications are considered to establish a comprehensive understanding of the research problem.

Data collection is conducted through systematic identification, selection, documentation, and examination of relevant academic and institutional sources. The literature search focuses on combinations of keywords such as Islamic financial inclusion, Islamic banking, Islamic microfinance, financial literacy, digital financial inclusion, poverty reduction, socioeconomic development, and Muslim communities. Publications are examined to identify their research objectives, conceptual frameworks, methodological approaches, principal findings, and implications. The selection process prioritizes relevant and credible sources, particularly recent publications, while retaining foundational literature that provides important theoretical explanations of Islamic finance and financial inclusion. This process allows the researcher to identify recurring themes, differences in research findings, and areas that require further conceptual examination.

Data analysis follows the qualitative analytical framework proposed by Miles et al. (2014), which consists of data condensation, data display, and conclusion drawing and verification. Data condensation involves selecting, organizing, and simplifying information from the collected literature according to its relevance to the research objectives. Data display is conducted by arranging the findings into interconnected analytical categories, including access to Sharia-compliant financial services, financial literacy and capability, digital financial utilization, productive economic participation, and socioeconomic welfare. Subsequently, conclusion drawing and verification involve interpreting the relationships among these

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categories and examining the extent to which Islamic financial inclusion contributes to socioeconomic development. The analysis also considers institutional and structural barriers that may limit the effectiveness of financial inclusion among Muslim communities.

To strengthen the analytical process, the study applies thematic analysis by identifying recurring patterns and relationships across the selected sources. The analysis is organized around four principal dimensions. First, financial accessibility examines the availability and affordability of Sharia-compliant financial products and services. Second, financial capability evaluates the role of Islamic financial literacy and individuals' ability to make informed financial decisions. Third, digital financial utilization examines how financial technology expands access to Islamic financial services while addressing potential digital barriers. Fourth, socioeconomic outcomes analyze the contribution of Islamic financial inclusion to income-generating activities, poverty reduction, economic participation, and household welfare. These dimensions provide an analytical basis for understanding Islamic financial inclusion as a multidimensional process rather than simply the expansion of access to financial institutions.

The credibility of the research is maintained through source triangulation, comparison of findings across different academic publications, and examination of evidence from credible institutional reports. The study also distinguishes between conceptual arguments and empirical findings to avoid generalizing conclusions beyond the available evidence. Differences in geographical context, research methodology, and socioeconomic conditions are considered when interpreting the findings. Through this process, the research develops an integrated understanding of how Islamic financial inclusion can support socioeconomic development and identifies the institutional, financial, and technological conditions necessary to strengthen its contribution to Muslim communities.

RESULTS AND DISCUSSION

1. Islamic Financial Inclusion and Access to Financial Services among Muslim Communities

The analysis indicates that Islamic financial inclusion represents an important mechanism for expanding access to financial services among Muslim communities, particularly individuals and households who experience economic, geographical, institutional, and religious barriers to participation in the formal financial system. Financial inclusion in the Islamic context should not be understood merely as the ownership of bank accounts or the availability of financial products. Rather, it encompasses the accessibility, availability, affordability, and effective utilization of financial services that comply with Islamic

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principles. These services include Islamic banking, Islamic microfinance, savings and financing products, microenterprise financing, and Islamic social finance instruments such as zakat, waqf, infaq, and sadaqah. Through these mechanisms, Islamic financial institutions can provide opportunities for Muslim households to manage financial resources, obtain business capital, develop productive activities, and strengthen their economic security. Consequently, Islamic financial inclusion has a broader developmental function because it connects financial participation with ethical principles, social responsibility, and the improvement of community welfare.

One important finding from the literature is that access to Islamic financial services remains uneven across geographical areas and socioeconomic groups. Differences in income, educational attainment, financial literacy, infrastructure, and institutional availability influence the ability of Muslim communities to participate in the Islamic financial system. Novreska and Arundina (2024), examining provincial data from Indonesia between 2014 and 2022, found that Islamic financial inclusion remained relatively low in most provinces, with the exceptions of Aceh and DKI Jakarta. Their findings suggest that the development of Islamic financial institutions does not automatically guarantee broad financial participation. The availability of Islamic financial products must be accompanied by effective distribution channels, public awareness, institutional accessibility, and the capacity of households to use financial services productively. This distinction is particularly important for rural communities, informal workers, low-income households, and microentrepreneurs who may face difficulties accessing conventional financial institutions and may also have limited knowledge of available Islamic financial alternatives.

Islamic financial literacy also emerges as a significant factor in determining financial inclusion. Communities need to understand the principles, characteristics, benefits, and operational mechanisms of Islamic financial products before they can make informed financial decisions. Financial literacy involves more than recognizing the prohibition of riba; it also includes understanding profit-sharing arrangements, risk allocation, financing contracts, savings instruments, and the differences between Islamic and conventional financial transactions. Takidah and Kassim (2022) examined the determinants of Islamic financial inclusion in Indonesia using survey data from Muslim respondents in several provinces. Their research identified Islamic financial literacy, trust, financial self-efficacy, and social influence as relevant determinants of Islamic financial inclusion. This evidence indicates that the expansion of Islamic financial services requires more than increasing the number of financial institutions. It also requires strengthening public understanding and confidence in the

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institutions providing those services. Financial education programs delivered through mosques, Islamic educational institutions, community organizations, and local economic groups can therefore become important instruments for increasing participation.

Trust is another essential dimension of Islamic financial inclusion because the relationship between financial institutions and Muslim communities is influenced by perceptions of religious compliance, transparency, fairness, and institutional integrity. Islamic financial institutions are expected to operate according to Sharia principles while maintaining professional standards of management and accountability. When communities perceive that financial institutions apply Islamic principles consistently, explain their products transparently, and provide fair treatment to customers, public confidence is more likely to increase. Conversely, complicated financing procedures, unclear contractual arrangements, limited customer assistance, and insufficient information may discourage participation. Trust is particularly important for low-income households because negative experiences can have a disproportionate effect on their willingness to use formal financial services. Therefore, institutional credibility should be treated as a fundamental component of financial inclusion rather than simply a supplementary organizational characteristic.

The accessibility of Islamic financial services is also influenced by technological development. Digital banking, mobile payment applications, online financing platforms, and electronic transaction systems provide opportunities to reach communities that are geographically distant from physical banking offices. Digital technology can reduce transaction costs, accelerate financial processes, and improve access to information about Islamic financial products. Nevertheless, digitalization does not automatically eliminate exclusion. Individuals with limited digital literacy, inadequate internet connectivity, restricted access to smartphones, or concerns about digital security may remain excluded from these services. Consequently, the digital transformation of Islamic finance should be accompanied by consumer protection, financial education, accessible application designs, and assistance for users who are unfamiliar with digital transactions. Technology should function as an instrument for widening participation, not as an additional barrier that separates digitally capable communities from those with limited technological resources.

The relationship between financial literacy, institutional trust, and product adoption is also demonstrated by research conducted among Muslim-dominated communities in Nigeria. The study by the authors of Expanding Financial Inclusion Participation in Muslim-Dominated Communities through Islamic Finance Products Adoption (2025) found that attitudes, subjective norms, perceived behavioral control, and behavioral intention influenced

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financial inclusion participation. Government support and Islamic finance product adoption also played important roles, while awareness and access to banking and digital channels did not independently produce the expected direct effects in the model. This finding suggests that the availability of financial services is not sufficient unless individuals are willing and capable of adopting them. Financial institutions therefore need to understand the social and behavioral characteristics of the communities they serve. Community-based education, religious leadership, institutional partnerships, and product innovation can help connect financial availability with actual utilization.

2. Islamic Financial Inclusion and Household Socioeconomic Development

The analysis further indicates that Islamic financial inclusion can contribute to household socioeconomic development through improved financial management, access to productive financing, business development, and greater economic resilience. Access to appropriate financial services allows households to manage income, accumulate savings, obtain capital, and respond to unexpected financial needs. For low-income households, these functions are particularly important because limited financial resources often make it difficult to maintain business operations, finance education, improve housing conditions, or cope with economic shocks. Islamic financial inclusion provides an alternative framework in which financial transactions are structured around Sharia principles, including fairness, transparency, risk-sharing, and the avoidance of prohibited transactions. Its developmental contribution therefore depends on whether financial services can improve the productive capacity and economic security of households rather than merely increase their participation in financial transactions.

One of the most important mechanisms connecting Islamic financial inclusion with socioeconomic development is access to productive financing. Micro and small enterprises frequently experience difficulties obtaining financing because of limited collateral, insufficient financial records, low business scale, and perceived credit risks. Islamic microfinance institutions, including Baitul Maal wat Tamwil (BMT), can help address these constraints by providing financing arrangements that are more responsive to the characteristics of small entrepreneurs. Financing can support the purchase of equipment, raw materials, business inventory, and other productive resources. When accompanied by appropriate mentoring, these facilities may strengthen business continuity, improve production capacity, and expand market opportunities. Research by Sambodo et al. (2023) on Indonesian Muslim households indicates that BMT participation can increase the probability of accessing formal loans. The study also identifies differences in financial access associated with household

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characteristics, including residential location and wealth. These findings underline the potential contribution of Islamic microfinance institutions while also demonstrating the persistence of socioeconomic disparities in financial participation.

The relationship between financial inclusion and household welfare is also supported by Novreska and Arundina (2024), who found that Islamic financial inclusion significantly contributed to poverty reduction and improvements in human development across Indonesian provinces. Their research provides evidence that Islamic financial inclusion can extend beyond financial-sector participation and become associated with broader socioeconomic outcomes. Access to Islamic financial services may enable households to allocate resources more effectively, obtain financing for productive activities, and improve their ability to meet essential needs. However, the study also found that the relationship between Islamic financial inclusion and income inequality was statistically insignificant. This distinction is important because poverty reduction and inequality reduction are not identical outcomes. Financial inclusion may improve the economic conditions of certain households without necessarily changing the overall distribution of income across society. Therefore, inclusive financial development requires policies that address unequal access to financial resources and differences in the productive capabilities of households.

Financial inclusion also has implications for education, financial planning, and productivity within Muslim households. The study Antecedents of Islamic Welfare: Productivity, Education, and the Financial Aspect (2024), involving 538 Muslim families in East Java, found that financial inclusion, financial literacy, and financial planning were associated with productivity and Islamic welfare. Productivity also played a mediating role in several relationships between financial factors and welfare outcomes. This evidence suggests that access to financial services becomes more meaningful when households possess the knowledge and capabilities required to use financial resources effectively. Financial services alone cannot guarantee improved welfare if beneficiaries lack financial planning skills, business knowledge, or the ability to identify productive opportunities. Accordingly, Islamic financial inclusion should be integrated with financial education, entrepreneurship development, and household economic planning. Such integration can help communities transform financial access into improvements in productivity and living standards.

The development of micro, small, and medium enterprises is another important pathway through which Islamic financial inclusion can influence socioeconomic development. MSMEs provide employment opportunities, generate household income, and support local economic activities. Access to Islamic financing can help entrepreneurs

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overcome capital constraints and maintain business operations. However, the relationship between financing and poverty reduction should not be considered automatic. Financing may improve business liquidity without necessarily increasing profitability or household welfare, particularly when enterprises face limited market access, weak management capacity, or insufficient demand. A recent study of Islamic financial inclusion and poverty reduction in Palopo City found positive effects on poverty alleviation and MSME performance, but MSME performance did not significantly mediate the relationship between financial inclusion and poverty reduction. This finding highlights the importance of complementary interventions, including business training, market development, financial management assistance, and institutional support.

Islamic social finance further strengthens the socioeconomic dimension of financial inclusion by addressing the needs of households that cannot adequately participate in commercial financial markets. Zakat, infaq, sadaqah, and waqf can complement Islamic commercial financing by providing social assistance, productive support, and community-based development resources. While Islamic commercial finance generally involves financial transactions and contractual obligations, Islamic social finance can address poverty-related constraints through redistribution and assistance based on social and religious responsibilities. The integration of these instruments may provide a more comprehensive financial ecosystem for Muslim communities. For example, vulnerable households may receive zakat assistance to meet immediate basic needs, while eligible microentrepreneurs can subsequently access productive financing and business development programs. Waqf-based initiatives may also support education, healthcare, and community infrastructure. Such integration can help connect short-term social protection with longer-term economic empowerment.

Overall, the relationship between Islamic financial inclusion and household socioeconomic development is multidimensional. It involves access to financial services, financial knowledge, institutional trust, productive financing, entrepreneurship, and the capacity to manage economic risks. The literature suggests that Islamic financial inclusion can contribute to improved welfare, but its effectiveness depends on the quality of institutional arrangements and the socioeconomic conditions of beneficiaries. Therefore, financial inclusion should be evaluated not only through the number of accounts, financing facilities, or transactions but also through changes in household income, productive capacity, business sustainability, access to education, and economic resilience.

3. Islamic Financial Inclusion as a Foundation for Inclusive Economic Development

At the broader development level, Islamic financial inclusion has the potential to

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support inclusive economic development by expanding opportunities for groups that have traditionally experienced limited access to financial resources. Inclusive development requires more than aggregate economic growth; it also emphasizes the distribution of economic opportunities, participation in productive activities, and improvements in the welfare of disadvantaged populations. In this context, Islamic financial inclusion can serve as an institutional mechanism for connecting financial-sector development with social objectives. By facilitating access to savings, financing, payment systems, microfinance, and social finance instruments, Islamic financial institutions can support the participation of low-income households, women entrepreneurs, rural communities, and informal-sector workers in economic activities. Its contribution is particularly relevant in Muslim-majority societies, where financial inclusion can be designed to accommodate both economic requirements and religious preferences.

The first contribution of Islamic financial inclusion to inclusive development is the expansion of economic participation. Individuals who previously depended on informal financial arrangements may obtain opportunities to access formal savings and financing services. This development can strengthen their capacity to establish businesses, increase production, and participate in local markets. Access to appropriate financing can also reduce dependence on informal lenders whose financing costs or contractual conditions may place additional pressure on vulnerable households. However, expanding access requires financial products that reflect the characteristics of different community groups. Small traders, agricultural workers, home-based entrepreneurs, and women-led enterprises may require different financing structures, repayment arrangements, and assistance mechanisms. Financial institutions that recognize these differences are better positioned to design inclusive services that respond to actual community needs.

The second contribution concerns the relationship between Islamic financial inclusion and poverty reduction. Poverty is not simply the absence of income but also reflects limited access to productive resources, education, healthcare, financial services, and opportunities for economic advancement. Islamic financial inclusion can address several of these dimensions by providing mechanisms for savings, financing, financial protection, and social assistance. Novreska and Arundina (2024) provide empirical evidence from 33 Indonesian provinces showing that Islamic financial inclusion contributes significantly to poverty reduction and human development. Nevertheless, their finding that the relationship with income inequality is insignificant demonstrates that the benefits of financial inclusion do not necessarily translate into a more equal income distribution. This distinction indicates that financial inclusion

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policies need to be combined with redistributive measures, targeted social protection, and productive development programs to address structural economic disparities.

A third contribution relates to the development of local economic ecosystems. Islamic financial institutions can support local economic activities by connecting microentrepreneurs with financing, suppliers, customers, and business networks. This function is important because the economic impact of financial inclusion extends beyond individual borrowers. When small businesses obtain adequate financing and improve their production capacity, they may generate employment, purchase materials from local suppliers, and contribute to the circulation of income within their communities. Such effects can strengthen local economic resilience, particularly in areas where formal employment opportunities are limited. However, the extent of these benefits depends on the availability of markets, infrastructure, business assistance, and institutional cooperation. Financing without access to customers or sustainable supply chains may produce limited development outcomes. Therefore, Islamic financial inclusion should be integrated with broader local economic development strategies.

The fourth contribution is its potential to strengthen the relationship between commercial and social dimensions of Islamic finance. Islamic financial inclusion should not be limited to Islamic banking and commercial financing because the Islamic economic system also recognizes the importance of social redistribution and collective responsibility. Zakat, waqf, infaq, and sadaqah can complement commercial financial services by supporting individuals who are unable to meet financing requirements or who require assistance before engaging in productive economic activities. Research by Siswantoro on the integration of Islamic social finance and Islamic commercial finance in Indonesia examines the potential relationship between these instruments and poverty reduction. This perspective suggests that a more integrated Islamic financial ecosystem can connect social protection with economic participation, although the effectiveness of such integration depends on institutional coordination and program design.

The fifth contribution concerns the improvement of human development. Inclusive economic development requires improvements in the capabilities that enable individuals to participate meaningfully in economic and social life. Islamic financial inclusion can contribute to this process by supporting household financial planning, access to education-related financing, productive investment, and economic stability. The relationship between financial inclusion, productivity, education, and Islamic welfare identified in the study of 538 Muslim families in East Java demonstrates that financial participation is connected to broader household capabilities. This finding supports the argument that the development impact of

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financial inclusion is stronger when financial access is accompanied by improvements in knowledge, productivity, and financial management. In this regard, Islamic financial institutions can collaborate with educational institutions, community organizations, and local governments to provide financial literacy programs that address the practical needs of different population groups.

Nevertheless, the contribution of Islamic financial inclusion to inclusive development is constrained by several institutional and socioeconomic challenges. These include limited Islamic financial literacy, insufficient public trust, unequal digital infrastructure, complicated financing procedures, limited collateral, and the concentration of financial services in urban areas. In some communities, the availability of Islamic financial institutions does not correspond with the actual financial needs of households and microenterprises. Furthermore, digital financial services may exclude individuals who lack technological knowledge or reliable internet access. These challenges demonstrate that financial inclusion is not simply a matter of increasing the supply of financial products. It also requires addressing demand-side constraints, institutional weaknesses, and structural inequalities that influence the ability of communities to access and benefit from financial services.

Another important issue is the measurement of inclusive development outcomes. Conventional indicators of financial inclusion frequently emphasize the number of accounts, financing volumes, transaction frequency, and institutional coverage. Although these indicators are useful for measuring financial access, they do not necessarily reveal whether financial services have improved household welfare. A more comprehensive assessment should examine changes in income, savings, business performance, employment, financial resilience, educational opportunities, and the ability of households to meet essential needs. For Muslim communities, the assessment may also consider the ethical and social dimensions of financial participation, including fairness, responsible financing, and the avoidance of excessive financial burdens. Such an approach would provide a more meaningful understanding of how Islamic financial inclusion contributes to socioeconomic development.

The findings also indicate that policy coordination is necessary to maximize the developmental contribution of Islamic financial inclusion. Islamic banks, Islamic microfinance institutions, BMTs, zakat organizations, waqf institutions, government agencies, and community organizations operate within different institutional structures, but their objectives may be complementary. Stronger coordination can facilitate the exchange of information, improve beneficiary identification, expand financial education, and connect social assistance with productive financing. Government support is also important in

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strengthening regulatory frameworks, expanding digital infrastructure, improving consumer protection, and encouraging innovation in Sharia-compliant financial products. Through these arrangements, Islamic financial inclusion can become part of a broader development framework rather than functioning as an isolated financial-sector initiative.

From a theoretical perspective, the relationship between Islamic financial inclusion and socioeconomic development can be understood through the principles of Islamic economics, particularly justice, social responsibility, cooperation, and the protection of wealth (hifz al-mal). These principles provide an ethical foundation for financial participation by emphasizing that financial resources should contribute to productive activities and social welfare. Islamic financial inclusion therefore has two interconnected dimensions: the expansion of access to financial services and the realization of socioeconomic objectives consistent with Islamic values. This perspective distinguishes Islamic financial inclusion from approaches that evaluate financial participation exclusively through market expansion or commercial performance.

Taken together, the analysis demonstrates that Islamic financial inclusion can support inclusive economic development through three interconnected pathways: expanding access to Sharia-compliant financial services, strengthening household and enterprise productive capacity, and integrating commercial finance with social finance instruments. However, these pathways do not operate automatically. Their effectiveness depends on financial literacy, institutional trust, appropriate product design, technological accessibility, and coordination among relevant stakeholders. The central implication is that Islamic financial inclusion should be evaluated according to its capacity to improve the quality of economic participation and generate measurable improvements in community welfare, rather than merely increasing the scale of financial transactions.

4. Synthesis of Research Findings

Based on the three analytical dimensions, Islamic financial inclusion can be understood as a multidimensional development mechanism that connects institutional accessibility, household economic capabilities, and broader socioeconomic participation. The first dimension demonstrates that access to Islamic financial services depends on the availability of institutions, financial literacy, public trust, and the suitability of financial products. The second dimension shows that financial inclusion can support household welfare through productive financing, savings, entrepreneurship, and improved financial management. The third dimension indicates that these household-level benefits can contribute to inclusive economic development when financial services are integrated with social

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protection, local economic development, and public policy. These dimensions are interconnected because institutional accessibility creates opportunities for participation, productive utilization generates economic benefits, and broader institutional coordination helps distribute those benefits across communities.

An important implication is that Islamic financial inclusion should not be interpreted as a purely financial-sector objective. Its broader significance lies in its potential to connect financial resources with the socioeconomic needs of Muslim communities. Financial access becomes developmentally meaningful when it enables individuals to improve their economic capabilities, participate in productive activities, and strengthen their welfare. Therefore, the success of Islamic financial inclusion should be assessed through both institutional performance and community-level outcomes. This perspective reinforces the importance of developing an inclusive Islamic financial ecosystem that combines commercial financial services, Islamic social finance, financial education, and community empowerment. Ultimately, Islamic financial inclusion can become an important foundation for equitable socioeconomic development when its institutional principles are translated into accessible, productive, and sustainable financial opportunities.

CONCLUSION

This study concludes that Islamic financial inclusion plays a significant role in supporting socioeconomic development among Muslim communities by expanding access to Sharia-compliant financial services, strengthening household economic capabilities, and promoting inclusive economic participation. Its contribution extends beyond access to Islamic banking and financing products to include financial literacy, institutional trust, productive financing, and the integration of Islamic commercial finance with social finance instruments such as zakat, waqf, infaq, and sadaqah. The analysis highlights that Islamic financial inclusion can support poverty reduction, improve household welfare, encourage microenterprise development, and strengthen economic resilience. However, these benefits depend on effective institutional governance, accessible financial products, digital infrastructure, public awareness, and coordination among Islamic financial institutions, government agencies, and community organizations. Therefore, Islamic financial inclusion should be developed not merely as a strategy for expanding financial access but as a comprehensive instrument for promoting economic justice, equitable opportunities, and sustainable development in accordance with Islamic economic principles. Future empirical research is recommended to

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examine its long-term effects on household welfare and economic inequality across different Muslim communities.

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