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Enhancing Islamic financial inclusion in Indonesia: Innovative strategies for rural and eastern regions

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ABSTRACT

This study aims to enhance Islamic financial inclusion in rural and eastern regions of Indonesia through innovative strategies, focusing on challenges related to access, literacy, infrastructure, and public trust issues. Using a qualitative library-based approach, this study analyzes literature from indexed journals, reports from the Financial Services Authority (OJK), and government policies published between 2018 and 2025. Data collection involves systematic literature searches using keywords such as “Islamic financial inclusion” and “Islamic fintech.” Content analysis is employed to identify patterns, challenges, and formulate strategies, with source triangulation to ensure validity. Research Findings Islamic financial inclusion in Indonesia stands at only 12.88%, significantly lower than the national inclusion rate (75.02%), due to limited access in rural areas (68.49%), low Islamic financial literacy (39.11%), geographic barriers, inadequate infrastructure, and product mismatches. Innovative strategies include: (1) contextual financial products such as musyarakah-based financing, (2) infrastructure strengthening through Islamic rural banks (BPRS) and digitalization, (3) financial literacy education, and (4) community-based awareness campaigns. Islamic fintechs (e.g., Alami, Ammana) show potential to overcome geographic constraints, though they are hindered by limited Internet penetration (60%) and digital literacy. These innovative strategies offer practical guidance for stakeholders to boost Islamic financial inclusion through contextual products, digitalization, community-based education, and women’s empowerment via MSMEs, supporting poverty alleviation and inclusive economic growth.

Keywords: Islamic Financial Inclusion; Rural Areas; Eastern Indonesia; Islamic Fintech; Financial Literacy.

1. INTRODUCTION

Indonesia has great potential for the growth of Islamic finance because it has the largest Muslim population in the world. However, Islamic financial inclusion is still quite low, especially in rural and remote areas, despite its strength and demographics. The national financial inclusion index is 75.02%, but Islamic financial inclusion is only 12.88%, according to the latest 2024 National Financial Literacy and Inclusion Survey conducted by the OJK and BPS. The index is 75.02%; however, Islamic financial inclusion is only 12.88%, according to the latest 2024 National Financial Literacy and Inclusion Survey conducted by the OJK and BPS. This disparity is even more pronounced in rural areas, where 80% of Indonesia's population lives, with access to the financial sector at only 68.49%, compared to 83.6% in urban areas. This is evident in rural areas, where 80% of Indonesia's poor population lives, with access to financial services at only 68.49%, while in urban areas, it reaches 83.6%. Equally problematic is the incredibly low Islamic financial literacy level of 39.11% against the 65.43% national index, marking a critical lack of knowledge and access to Islamic finance products and services throughout the country (Sururi & Kuntoro, 2025). The abovementioned problems become more severe because of geographical, infrastructural, and cultural barriers, which makes the Islamic financial inclusion issue for rural and eastern Indonesia urgent. More importantly, it is also vital for tackling broader economic and social development objectives.

The importance of this research lies in its focus on geographic and essential facets of Indonesia's financial landscape, specifically the selectivity of Islamic financial inclusion in rural and eastern regions. Reducing Islamic financial inclusion is crucial for several reasons. To begin with, it highly influences poverty reduction and human development, as empirical evidence has revealed that Islamic financial inclusion in provinces with a high and very high HDI score plays a significant role (Novreska & Arundina, 2024). Second, Indonesia's dream of becoming the world's center of Islamic finance will never be achieved if the stability and resilience of the system rely only on big cities. Recent studies show that it is precisely the involvement of remote areas that will strengthen the foundation of the industry (Sururi & Kuntoro, 2025). Third, rural and eastern regions have unique characteristics: financial products are limited, financial literacy is low, and awareness of Islamic finance is minimal. Therefore, this study seeks to develop real solutions, not just theories on paper, to bridge the gap between cities and villages. Finally, when Islamic finance truly reaches remote areas, the first to feel its benefits will be the groups that have been most marginalized: women, micro-entrepreneurs, and MSMEs. They are the backbone of the rural economy; providing them access to halal financing means providing them the key to unlocking independence and a better life (Mujiatun et al., 2023).

Why is this research worth studying? This is a real concern because many of our brothers and sisters in rural and eastern Indonesia are still unable to enjoy Islamic financial services. This national issue can no longer be ignored. Indeed, several previous studies have shown that financial literacy, trust, and environmental influences determine whether someone is willing to conduct transactions in accordance with Islamic principles (Takidah & Kassim, 2021). However, what has not been widely explored is what strategies are truly suitable for villages and eastern regions, where ways of thinking, culture, and even Internet signals differ from those in cities. Our research fills this gap. We also deliberately targeted the next five years, 2025 to 2030, because the future can no longer be separated from digital technology. For example, consider the Islamic Rural Bank (BPRS). When the COVID-19 pandemic struck, the BPRS, which had already embraced digitalization, remained resilient. This means that if we want Islamic finance to reach the most remote villages, a simple application on a farmer's or housewife's phone could be the key to achieving this goal. What makes this research different is not only because it looks ahead, but also because it was born from the voices of practitioners. We invited experts from various regions and compiled strategic priorities using the Analytic Network Process (ANP) method. The result was four keywords that were declared to be the most urgent: products that are "close to the hearts" of rural communities, affordable financial infrastructure, human capacity building, and continuous demand creation (Ali et al., 2020). In short, this research is not just a review on a bookshelf but a road map that has been approved by those who live and work in the field.

The primary objective of this study is to enhance Islamic financial inclusion in rural and eastern regions of Indonesia by identifying and proposing innovative strategies for 2025–2030. Specifically, this study aims to: (1) assess the current state and challenges of Islamic financial inclusion in rural and eastern Indonesia, including disparities in access, literacy, and infrastructure; (2) propose innovative strategies to address these challenges, focusing on product compatibility, financial infrastructure, human development, and demand creation, prioritized based on expert analysis; and (3) explore the role of digital technology, such as fintech, in expanding access to Islamic financial services in underserved areas, based on findings that highlight the critical importance of digital readiness for rural banks.

Investigate community-based approaches, including the involvement of local and religious leaders, to promote awareness and adoption of Islamic financial products, and address the need for support from community leaders.

2. METHOD

This study employs a qualitative, library-based research methodology to examine barriers and design innovative strategies for improving Islamic financial inclusion in rural and eastern Indonesia. This methodology was chosen for its capacity to obtain comprehensive insights from the existing literature, understand patterns, and formulate contextual recommendations without the need for primary data collection. This method allows researchers to build a robust analytical framework based on reliable secondary data using written sources, such as academic journals, official reports, policy publications, and relevant studies.

The research design is descriptive-analytical, in which the researcher systematically organizes and analyzes literature to address critical areas of investigation, including identifying key barriers to Islamic financial inclusion in underdeveloped regions, developing innovative strategies based on technology and community involvement, and examining the role of Islamic Fintech.

Data were collected through a systematic review of relevant literature obtained from indexed journals (including the Journal of Islamic Monetary and Financial Economics, ICR Journal, MDPI, and systematic reviews), along with reports from the OJK and BPS and government policy documents. Relevant literature was obtained from indexed journals (including the Journal of Islamic Monetary and Financial Economics, ICR Journal, MDPI, and Tandfonline), along with reports from the OJK and BPS and government policy documents. The keywords used are “Islamic finance inclusion,” “rural Islam,” “Islamic fintech,” and “Islamic financial literacy.” The publication date was limited to 2018–2025 to ensure that the data was current and relevant. “Rural Islamic finance,” “Islamic fintech,” and “Islamic financial literacy.” The publication date was limited to 2018–2025 to ensure that the data was current and relevant.

Using a content analysis approach, the data were analyzed by first organizing the literature based on main themes, then codifying the data into sub-themes, interpreting the results to find trends and relationships between variables, and finally synthesizing the data to make recommendations and strategies specific to the local context. Data is analyzed by first organizing the literature into main themes, then codifying the data into sub-themes, interpreting the results to find trends and relationships between variables, and finally synthesizing the data to make recommendations and strategies specific to the local context. Source triangulation was used to maintain data consistency and integrity by comparing information from policy reports, academic journals and other reliable sources. By accurately citing sources and remaining impartial when interpreting the results, this study also adheres to academic ethics. While this method has limitations, such as reliance on secondary data and limited coverage of region-specific data for eastern Indonesia, it remains relevant in constructing a strategic theoretical and policy foundation, especially amid the rapid transformation of the Sharia-based digital financial sector.

3. RESULT AND DISCUSSION

3.1 Key Challenges of Islamic Financial Inclusion in Rural and Eastern Indonesia.

The lack of access to financial services in Indonesia is a notable problem, especially in terms of disparities between rural and urban areas. Evidence shows that the level of access to financial services in rural areas is only 68.49%, much slower than in urban areas at 83.6%. This shows that rural areas are still rife with difficulties in acquiring access to financial services in a formal system, which is a basic universal right of every citizen (Sinaga & Harahap, 2025). This problem becomes more complicated in eastern Indonesia, especially in the provinces of Papua and Maluku, as they are marked by tougher geographical characteristics, the absence of transportation networks, and a lack of financial service facilities in the form of bank outlets, ATMs, and internet connectivity (Susanty et al., 2025). Factors that particularly lead to this lack of access include a lack of appropriate infrastructure, a lack of Internet connection in some remote regions, and a lack of financial literacy, making people less capable of managing financial products and services effectively. Moreover, the geographical terrain characterized by high mountains, small islands scattered across the vast expanse of Indonesian waters, and a lack of convenient means of transportation affecting financial service accessibility, also lessens the efficiency of financial service delivery in Indonesia (Fanaetu et al., 2025). Due to these constraints, the community has no way of performing financial tasks such as saving in banks, obtaining credit in financial institutions that they can utilize productively, acquiring insurance schemes, or employing financial services today for a better tomorrow. This lack of access not only affects financial inclusion in Indonesia, as stated earlier, but also affects the pace of economic development in rural and eastern Indonesia and increases the gap between developed and underdeveloped countries.

Low Islamic financial literacy remains the main challenge hampering the optimal development of the Sharia financial industry in Indonesia. Data from the Financial Services Authority (OJK) show that the national Islamic financial literacy index is only 39.11%, far from the general financial literacy rate of 65.43% (Sirait et al., 2025). This gap reflects a limited understanding of the fundamental principles of Sharia-compliant finance, such as the prohibition of riba, gharar, and maisir. Moreover, most people believe that Islamic finance is no different from conventional finance, or perhaps have never heard of Islamic financial products at all. This low level of literacy is caused by a lack of structured and continuous education in the Islamic financial system at both the formal and informal levels (Emilia, 2024). However, the performance of Islamic financial institutions has also been less than optimal in conducting outreach, promotion, and public communication that may clearly explain the advantages of Islamic financial products, such as mudharabah savings, murabaha financing, and takaful insurance. The lack of educational media on Islamic finance, limited human resources who are competent to explain it, and not fully inclusive public policy support exacerbate this situation. The implications of low Islamic financial literacy are extensive, starting from the low adoption of Islamic financial products to the stagnation of the growth of the industry itself (Hasibuan et al., 2025). Indonesia has not optimally developed its vast potential as the country with the largest Muslim population in the world because of the public's limitations in comprehending financial services aligned with Islamic values. Therefore, improving Islamic financial literacy must be set forth as a national priority to develop a financially literate society through synergy among the government, educational institutions, financial authorities, and Sharia industry stakeholders for the attainment of inclusive and sustainable Islamic economic growth.

Eastern Indonesia, particularly the provinces of Papua and Maluku, faces numerous challenges in developing Islamic financial services. Geographical considerations and infrastructural difficulties are some of the factors that make establishing Islamic financial services in this region challenging. Indonesia, a nation consisting of various islands, faces geographical difficulties, as most of the country comprises remote areas that cannot easily be accessed. As of 2024, the spread of Islamic banking in Eastern Indonesia is minimal, making Sharia-compliant financial services according to Sharia a challenge for most of the population in this region. Moreover, internet penetration is also minimal at only 60% of the population, making digital financial services a challenge despite the digitalization of financial services being one of the most effective strategies to cover those who lack financial services in remote areas (Nisa et al., 2025). This has slowed the pace of Islamic financial inclusion in this region due to a lack of sufficient financial education in Islamic financial services among the people. Various strategies that involve the construction of projects such as the Non-Toll Trans Papua Road initiated by PT Sarana Multi Infrastruktur (PT SMI), BRI, BNI, and BSi aim at improving infrastructural development as well as facilitating logistics in the region. This is in addition to the construction of the Maluku Integrated Port (Bakhri, 2024). This will help enhance the mobility of people and financial services in this region. However, the effects of geographical considerations and a lack of infrastructural development in this region continue to be severe. This is because public access to financial institutions, especially those that operate according to Sharia, is minimal, as is the use of digital financial services, despite increased adoption of digitalization in financial institutions as one of the most effective strategies to cover the population that lacks financial infrastructural services in this region. This has caused the gap in economic development in this region to continue to grow compared to other regions in Indonesia (Jannah & Kurniati, 2025).

Challenges Islamic financial services face challenges due to cultural barriers and low public trust in Indonesia. There is global distrust of the compatibility of economic realities and local cultural values with doctrines often associated with Islamic financial products, which are considered unsuitable for regions rich in social systems and strong traditions. Many people believe that Islamic financial products are 'rigid' and unsuited to their practical economic needs. Furthermore, in a context of bias and lack of knowledge about the original principles underlying Islamic economics (which include the principle of prohibiting riba [interest], considering paragraph 2 unreasonable) or justice requiring us to share risks, this situation is exacerbated by public misunderstanding when we try to understand Islam, which ultimately leads to skepticism about the services provided by Islamic financial institutions (Salsabila & Muis, 2025). At other times, negative experiences or misinformation about how Islamic financial institutions work perpetuate public distrust of these operators and encourage individuals to turn to alternative forms of financing through conventional banks or informal practices that are considered less convenient but much more familiar to them. Therefore, the penetration of Islamic financial products is still low, hindering growth in the Islamic finance sector. These needs will be met with a culturally based worldwide strategy. To encourage people to gain access to effective knowledge of financial management that will help them, education campaigns that are culture-based will be in line with those that aim to promote a correct grasp of the relevant Islamist values in these issues. More flexible Islamic financial instruments, such as Sharia-based micro-financing programs or savings schemes that adapt to target profiles and time horizons, can help supplement institutionalized strategies. Greater transparency in financial services, including service accountability, will help ensure the continued viability of businesses in the Islamic financial sector. Maintaining a relationship with local leaders in the Muslim community is also a crucial consideration in any campaign, given the influence that these people often exert over financial attitudes and perceptions (Sari, 2025). A culture-based strategy will help the community that is not supportive of Islamic financial institutions reduce their influence, thereby increasing inclusiveness that will benefit various segments of Indonesian society sustainably.

3.2 Innovative Strategies to Enhance Islamic Financial Inclusion

It is imperative to ensure that the design of financial products of the Islamic financial system is such that they effectively contribute to the enhancement of the well-being of rural people. This is achievable if financial products are adapted according to the economic, income, and cultural values of the people. Rural people often earn irregular incomes, especially in agricultural and fishing activities (Mustanir et al., 2023). Therefore, musharakah, a Shariah-compliant financial model that allows a partnership model of equality in which income and risk are shared in equal proportions according to each party's contribution, is relevant. This model is not only capable of encouraging contributions from micro, small, and medium businesses (MSMEs) but is also flexible in management. Moreover, inexpensive Shariah savings instruments will be a great solution for people with low incomes who are also expected to maintain small savings over time. They require appropriate financial solutions that ensure safety and Shariah compliance.

Modifications in financial product structures are also important in relation to convenient repayment methods. This will not only ensure that decisions made on financial strategies consider the social and cultural values of people but also ensure a convenient means of engaging in a financial process with Islamic financial systems (Ajustina & Nisa, 2024). Therefore, with the help of modified financial product structures according to the economic needs of people, increased adoption and participation among people in Islamic financial systems will also become possible. Hence, this will not only promote the development of MSMEs, creating a boost in the local economy, but greater Shariah financial inclusion will also become possible in remote villages.

Improving the financial infrastructure of Sharia financial systems in remote areas is a strategic move towards broadening access to equal and sustainable financial inclusion. A notable strategy in this respect is the enhancement of Sharia Rural Bank (Bank Perkreditan Rakyat Syariah, BPRS) networks, which in the past primarily operated in a way that benefited those from lower-to middle-class backgrounds (Aryanti & Fasa, 2024). This can be done by increasing the number of service outlets in those remote areas to offer Sharia-compliant financial and savings services not only to small businesses (micro, small, and medium enterprises (MSMEs)) in those areas, who experience difficulties in acquiring financial services from formal financial institutions, but also to those people in the same remote areas who belong to the lower class of Indonesian society. Moreover, enhancing Sharia banking agents is a practical solution that will benefit those in remote areas where the establishment of bank outlets is not feasible (Ridha, 2023). Banking agents act as the first point of contact in financial services that benefit the respective community in simple financial operations that people in those areas will be able to understand. With respect to geographical and infrastructural constraints, the role of digitalization in Sharia financial systems has come into particular prominence in this respect. Now, via online Sharia financial systems such as Sharia Mobile Banking, people in remote areas will be able to access financial services at any time and place without having to visit any financial institution in those geographical locations. This not only makes financial operations more effective in a cost-effective way, but also increases the speed of financial integration in a more sustainable way towards financial inclusion (Sadari & Hakim, 2019). A combined strategy of this kind to enhance financial infrastructure in Sharia financial systems is a major move that will help achieve equal economic enhancement sustainably based on Sharia financial values in any geographical location in Indonesia, including remote areas.

The development of humans through improved Islamic financial literacy is a key building block for increasing inclusion in Sharia finance, particularly in the case of populations that are excluded from formal financial services. A more effective pedagogical method is to harness the influence of local religious leaders and communities. Religious leaders, with their highly valued moral and spiritual authority, are becoming more influential in the campaign for education that is culturally sensitive and in accordance with Sharia principles (Prawana, 2024). Muslim involvement is not just communicators but also legitimizing agents of literacy initiatives that convey the acceptance of Islamic finance products, often met with skepticism by rural populations or those who do not have sufficient financial literacy. Simultaneously, Muslim involvement means a greater contribution to possible participation and consideration of the needs of a specific context. Programs suited to the social, economic, and cultural contexts of target groups have a better success rate in reaching the target group and sustaining educational results (Rahmadewi et al., 2024). To this end, collaborative and community-based educational approaches should be developed to develop human resources and create a comprehensive and sustainable Islamic financial system based on the principles and values of Islam.

Launching Islamic financial product awareness campaigns in local media and involving community leaders has been shown to be an effective measure to encourage public interest and response to Sharia-based financial offerings, which is particularly useful in areas with poor financial literacy. Specifically, local media, including community radios, village magazines, and other community-based public broadcasting, are s... in providing information that is meaningful within the context and easily perceptible for local residents (Subardi & Yuliafitri, 2019). The local media is also seen to be more sensitive to social and cultural aspects of the community; hence, messages regarding the advantages and ideals of Islamic financial products can be delivered more inclusively and influencingly through the inclusion of local leaders, such as traditional leaders, religious scholars, and local opinion leaders. The credibility of these personalities in the community also increases the persuasiveness of their outreach and education activities, and this has a positive effect on transforming the perception and attitude of people towards Islamic financial services (Junaidi, 2024). Conversely, technology and the wider use of the Internet have also provided additional avenues to conduct campaigns in the country using digital media platforms, including social media, educational videos, podcasts, and webinars. These digital platforms are also particularly useful for accessing larger audiences, especially the younger generation, which is more digitally savvy. In addition, digital campaigns enable interactive, creative, and sustained content delivery, thus enhancing the population's awareness of the nature, principles, and benefits of Sharia financial products (Susmita & Aslami, 2021). Islamic financial institutions, government institutions, religious leaders, academics, and mass media should collaborate to maximize the social impact and acceptance of such campaigns. The combination of local media and online channels and the involvement of community leaders in the campaign with educational methods will enhance the positive perception toward Islamic financial inclusion by the population, more people will start using it, and eventually, Islamic financial inclusion will be available to all people nationwide, which is stipulated in the National Strategy for Financial Literacy Indonesia 2021-2025 designed by OJK and KNEKS. Thus, culture-induced and sensitive awareness campaigns for the demands of the digital generation are the key to creating an inclusive, participatory, and sustainable Islamic financial system.

3.3 The Role of Digital Technology in Increasing Access to Islamic Finance

Sharia-compliant fintech has become a strategic innovation that can mitigate the access gap to Islamic financial services, especially for the rural population, which has long been underserviced by traditional financial institutions. Digital technologies and mobile applications have enabled platforms such as Alami and Ammana to provide financing and investment products that conform to the fundamental Sharia ideals of transparency, justice, and risk-sharing while being accessible to users at the grassroots level. These platforms also allow unsecured financing procedures, risk evaluation based on algorithms to be more objective, and have relatively quick disbursement schedules, which makes them very applicable to micro-entrepreneurs and MSMEs, who frequently encounter obstacles in obtaining credit through formal financial institutions (Norrahman, 2023). Combining simple functionality with Islamic ethical principles, Sharia fintech contributes to increasing society's trust in the official financial market and provides new opportunities for local economic development based on inclusion and equal opportunities. However, the structural obstacles associated with Sharia fintech development in Indonesia are low rates of Islamic financial literacy and insufficient Sharia-compliant fintech providers as opposed to conventional ones. The lack of knowledge about Sharia finance and its advantages has led to weak usage by the user, particularly in low-education and information-access areas (Widya et al., 2024). Nevertheless, the future of Sharia fintech is bright. According to recent reports, the transaction volumes of Islamic fintech in Organisation of Islamic Cooperation (OIC) countries are likely to reach USD 128 billion in 2025, with an annual rate of 21 percent. In Indonesia, high regulatory support from authorities such as the Financial Services Authority (OJK), Bank Indonesia (BI), and the National Committee on Islamic Economy and Finance (KNEKS) is a key driver of the Sharia fintech ecosystem (Kholidah et al., 2025). As more people go online and the value of halal financial practices is increasingly understood, Sharia fintech will contribute to the rise of the role of Islamic financial inclusion and the empowerment of the economic growth of the Ummah. Thus, digital technology integration, Sharia principles, and community-based educational strategies must be the key to the full potential of Sharia fintech as a universal solution for sustainable economic development in rural areas.

Eastern Indonesia is confronted with structural issues regarding how to increase digital financial inclusion, especially how to create Sharia-compliant financial services using technology. Low internet penetration is one of the greatest obstacles, but in 2024, the rate was around 60 compared to the country average of 84. This number indicates structural shortcomings in the telecommunications infrastructure, challenging geographical factors, and expensive internet access in most of the remote regions (OJK, 2024).

Such limitations directly influence the capacity of communities to receive online services, such as Sharia fintech products that are highly dependent on access to the internet and the presence of digital devices. On top of physical access, other cognitive barriers that curtail progress include low digital literacy levels. Even in eastern Indonesia, a large share of rural population has not yet been exposed to mobile devices, digital financial applications, and their population has little knowledge about the advantages and risks of digital financial services. These restrictions solve the digital and financial gap between the eastern areas and more advanced urban or western ones, strengthening the already existing economic and social disparities (Hendrayana et al., 2024). Consequently, communities in such regions are mostly locked out of the digital economic activities, such as access to Islamic financing, savings, or the ability to access investment tools that might enhance their economic welfare. These barriers can be solved in a holistic and collaborative way. The government needs to expedite the process of building broadbands even to the far off villages through incentive policy to telecommunications providers. Concurrently, there is a need to intensify digital literacy programs by providing contextual training, which is communally based, which entails the use of local leaders, teachers and religious groups with high levels of social influence. Moreover, digital financial apps should be designed with user-friendly properties and flexibility to meet the requirements and potential of technology-untrained rural masses. Cross-sector partnership between the government agencies, internet service providers, Islamic financial institutions, learning institutions, and civil society organisations is of pivotal importance in promoting digital and financial inclusion in eastern Indonesia. It is only on an integrative approach like this that inclusive and equitable digital transformation can be made in all regions without the marginalization of the most vulnerable populations.

The post-COVID-19 transformation of the Sharia Rural Banks (Bank Perkreditan Rakyat Syariah/BPRS) into the digital world has become a key stimulus in the modernization of the Islamic financial system in Indonesia. The pandemic enhanced the nature of digitalization in the financial industry, including the BPRS, as the way of responding to mobility limitations and the necessity of receiving financial services without being physically present. In this regard, digitalization has enabled the functioning of BPRS to a large extent in terms of automation of internal procedures, facilitation of service costs, and expedited decision-making and execution of transactions. Furthermore, digital services like mobile applications, internet banking and collaborating with digital agents have facilitated the presence of BPRS in the rural and remote communities which were initially underserved by other means. (Aripin et al., 2022) which has not only led to the further penetration of BPRS products but also served the micro, small, and medium enterprises (MSMEs) and low-income earners who constitute the primary clients of the BPRS. The convenience of using accounts, getting financing, and paying electronically without having to go to physical branches has had a physical effect in terms of increasing financial literacy and community involvement. At the same time, the introduction of digital systems has enhanced transparency, accountability, and data security, which are the main ingredients to develop trust in the Islamic financial system among people (Azmi & Thaker, 2020). With the empowerment of technology, BPRS has transformed itself as a conventional community-based microfinance institution to a strategic player towards the development of inclusive digital economy. This change also helps to enhance the economic resilience of the local economy and speed up the process of post-pandemic recovery, since more people will be incorporated into the formal Sharia financial ecosystem. Therefore, the digitalization of BPRS cannot be considered an uncomplicated technical or administrative modernization, but a visionary policy approach that is to reach the broadest possible spectrum of access to the sphere of Islamic finance, to overcome the barriers to access, and create an effective, fair, and sustainable economic framework in Indonesia.

3.4 Community-Based Approaches to Promote Awareness and Adoption

Engagement of religious leaders and the local leaders in the growth of Islamic finance has been a very effective approach in increasing the level of confidence and acceptance of the Sharia compliant financial products and services especially among communities that have close socio-cultural bonds. This relies on the moral and social authority of such figures, who not only enjoy the respect but are trusted (communities) to lead the community according to the religious and local values. Religious leaders or elderly members in the community that relay educational messages about the tenets of Islamic finance can find the information more easily accepted and comprehended because they use contextual language that can be connected to the daily values of the community (Sehabudin, 2023). Through the availability of religious leaders, it is easier to incorporate spiritual and economic dimensions by making the masses have a stronger belief that Islamic financial services are not just financial tools, but a way of worship and abidience to the teachings of religion. In the meantime, local leaders because of the good horizontal relations and social closeness are valuable agents in spreading information and expanding the outreach activities to ground-level activities. Empirically derived literature and reports on financial literacy initiatives have continuously shown that the direct involvement of the leaders of communities increases the adoption and uptake of Islamic financial products significantly. It has a multiplier impact on enhancing financial literacy, empowering local economies, and developing more inclusive and sustainable Islamic financial ecosystem (Junaidi, 2024). Therefore, the role of religious and local leaders is very vital in not only delivering messages, but also in trust, cultural resistance and strengthening the social legitimacy of Islamic finance as part of the larger societal framework.

The fusion of Islamic study circles (pengajian) with Sharia financial education is a highly promising approach to further financial literacy and increasing the overall acceptance of Islamic financial systems among people. Within the Indonesian Muslim-majority society, pengajian is a common religious practice that has a high social and spiritual validity (Mustofa, 2020). Therefore, implementing the Sharia financial literacy material during the regular religious meetings, like the mosque meetings, the majelis taklim, or even the yasinan sessions is a strategy that is not only efficient but also a strategy that is effective in providing the information that resonates with the religious values and socio-cultural context of the community. They can instill in the audience not only theoretical knowledge but also religious faith in the authenticity and benefits of the Sharia-compliant financial products when delivered by ustadz or religious leaders who have a full understanding of the Islamic principles and practices in finance (Susriyanti et al., 2022). This can be used to overcome skepticism and eliminate fallacies that tend to hamper the mainstream of Islamic financial services as some people have misconceived that Islamic financial products are too complicated or less competitive than other financial products. Moreover, interactive formats and style like Q&A sessions and case studies in these religious forums are actively employed to improve on the understanding and participation of the participants in a consistent and sustainable manner, which creates a transformative learning experience that is internalized in the financial behaviors of the participants (Susriyanti et al., 2022). Subsequently, the integration of religious operations and financial education does not only enhance the spiritual aspect of the community but also creates an inclusive, sustainable, and value-based Islamic financial ecosystem.

The role of women in economic empowerment is very strategic, especially the role played by women in developing Micro, Small and medium Enterprises (MSMEs) in rural locations. Their direct contribution to the household income is not only through their direct involvement in this sector but also by enhancing the social transformation in the community at large. The women in MSMEs contribute to the fortification of the rural economic setup, by providing jobs, building social networks and transferring entrepreneurial knowledge among the community members. Women-led economic efforts have also been more inclusive and long-term in nature since they tend to incorporate local innovativeness with family values and sustainability principles (Dunggio et al., 2024). To maximize this position, empowering strategies must involve training on business skills, Sharia financial literacy, and the availability of financing arrangements which are empathetic to the unique needs of women- especially using the Sharia based microfinance schemes. Also, business mentoring and community networks are essential to the resiliency of female-led businesses in response to market and economic shocks. Altogether, by empowering women with MSMEs, they do not only enhance the well-being of their families, but also help in the social integration, poverty alleviation, and developing of a more inclusive and equal rural economy. Thus, the empowerment of women in the MSME ecosystem should be part and parcel of the economical development plans of both regions and nations.

4. CONCLUSION

The research aims at advancing Islamic financial inclusion of rural and eastern parts of Indonesia by using novel approaches that address the issue of accessibility, literacy, infrastructure and trust of the people. According to qualitative literature-based analysis, the low level of Islamic financial inclusion (12.88%) in relation to national financial inclusion (75.02) is explained by the differences in accessibility (68.49 in rural areas vs. 83.6 in urban areas), the level of Islamic financial literacy (39.11), geographical and infrastructural barriers in eastern Indonesia, and the lack of trust because of the incompatibility of the available financial products with the local requirement.

The suggested innovative plan will be built around four pillars, including (1) compatibility of products: the introduction of musyarakah-based financing of MSMEs; (2) empowerment of the financial infrastructure by increasing the number of Islamic rural banks (BPRS) and digitalizing them; (3) development of human capital: teaching Islamic financial literacy; and (4) demand generation: education through local media and community leaders. Digital technologies, including Islamic fintech applications, such as Alami and Ammana, have a high potential of getting over geographic boundaries, but there are still obstacles because of poor internet penetration (60 percent in eastern regions) and low levels of digital literacy. The community-based strategy incorporating the participation of religious leaders and women in MSMEs development has proven beneficial in creating trust and facilitating the faster adoption of Sharia-compliant financial products.

Stakeholders can apply this research to enhance the extent of Islamic financial inclusion, especially in rural and eastern Indonesia. Financial Services Authority (OJK) and local governments are stimulated to increase the support of digital infrastructure; Islamic financial institutions will need to provide contextually relevant products, and cooperate with fintech providers; local communities will need to include financial education in their religious events and empower women with MSME programs; and the technology sector will need to invest in digital training and connectivity. All these activities help in poverty reduction and achieve an inclusive and equitable economic development agenda.

Ethical Approval

Ethical approval was not required for this study.

Informed Consent Statement

All participants were informed of the purpose of the study, and informed consent was obtained prior to data collection. Participation was voluntary, and all responses were kept confidential and used solely for academic research purposes.

Authors' Contributions

MS contributed to the conceptualization of the study, supervised the research process, and coordinated the overall manuscript preparation, including acting as the corresponding author. ANDP was responsible for data collection, literature mapping, and drafting the initial sections of the methodology. MT contributed to the analysis and interpretation of the findings, particularly in identifying patterns and challenges in Islamic financial inclusion. S assisted in data validation, source triangulation, and refining the discussion section to ensure clarity and academic rigor. AHM contributed to the formulation of innovative strategies, reviewed policy-related literature, and enhanced the manuscript's theoretical framework.

Disclosure statement

No potential conflict of interest was reported by the authors.

Data Availability Statement

The data presented in this study are available on request from the corresponding author due to privacy reasons.

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