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(3 September 2020)
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Ahmad Badri Abdullah

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Ahmad Badri Abdullah
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STRENGTHENING INDONESIA’S ISLAMIC FINANCIAL INCLUSION: AN ANALYTIC NETWORK PROCESS APPROACH

Mohammad Mahbubi Ali*
 Abrista Devi**
 Hamzah Bustomi***
 Hafas Furqani****
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Abstract: This study proposes some strategies to strengthen Islamic financial inclusion in Indonesia. The study employs the Analytic Network Process (ANP) by interviewing Indonesian Islamic finance experts, including academics, regulators, and practitioners. The ANP results show that the strategies to strengthen Islamic financial inclusion in Indonesia, ranked based on their significance level, are product compatibility (0.28), financial infrastructure (0.25), human development (0.20), and demand creation (0.18). The study provides actionable recommendations for Islamic Financial Institutions (IFIs) in Indonesia when formulating their appropriate roadmaps and strategies for Islamic financial inclusion. This study is a pioneer work that develops an institutions-based strategy for Islamic financial inclusion in Indonesia based on expert judgments.

Keywords: Islamic finance, financial inclusion, Indonesia, Analytic Network Process, institutional solutions, product compatibility.

Introduction

As entities operating within the realm of shariah principles, Islamic Financial Institutions (IFIs) are expected to contribute significantly to the financial inclusion agenda. The World Bank’s Global Findex Survey (2017) projected that around 6 per cent of the world’s adult population is financially excluded due to religious considerations. Islamic finance could, therefore, bring people closer to financial access and help them utilise various financial services that comply with certain ethical values.¹ The International Monetary Fund (2018) acknowledged that “the growth of Islamic finance presents important opportunities to
strengthen financial inclusion, deepen financial markets, and mobilise funding for development by offering new modes of finance and attracting unbanked populations that have not participated in the financial system.”

A plethora of academic studies have confirmed that Islamic finance could strengthen financial inclusion via two channels, namely risk-sharing and social finance concepts. Risk-sharing can serve as an alternative to conventional debt-based financial instruments, broadening financial access for small and medium enterprises. Islamic social finance, such as zakat, sadaqah (alms), waqf (endowment fund), and qard hasan (benevolent loan), on the other hand, complement risk sharing-based instruments by providing financial access to unbanked people.

In Indonesia, the Islamic financial industry has, over the last three decades, developed exponentially, emerging as an essential jurisdiction in the global Islamic financial landscape, ranked in 2018 at 4th place, after Iran, Saudi Arabia, and Malaysia. The last decade has also witnessed the unveiling of Islamic microfinance sectors in the country, such as Baitul Mal wat Tamwil (BMT), a Shariah Cooperative (Koperasi Syariah), Islamic pawnbrokers (Pegadaian Syariah), and Islamic social finance institutions. These could also play a significant role in providing financial access to low-income communities.

The Indonesian government has made significant progress in deepening financial inclusion. The National Strategy for Financial Inclusion, outlined in 2012, aims to achieve a financial system that is accessible to all layers of the community in Indonesia. In 2014, the Financial Services Authority also issued POJK No. 19 on branchless banking in order to strengthen financial inclusion, namely Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif—LAKU PANDAI—(Branchless Financial Services for Financial Inclusion). On 27 September 2016, Bank Indonesia introduced Layanan Keuangan Digital—Digital Financial Services (LKD) for financial inclusion. Also in 2016, the government established the National Committee for Islamic Finance (KNKS), later known as the National Committee for Islamic Economy and Finance (KNEKS), to strengthen the Islamic economy and finance ecosystem for the development of the national economy.

Needless to say, financial exclusion remains a significant issue in Indonesia. According to the 2017 Global Findex survey, only five out of ten Indonesian adults have access to finance. A study by Indonesia’s Financial Services Authority (FSA) discovered that the Islamic financial inclusion index stood at only 11.1 per cent. This means that only 11.1 per cent of Indonesia’s population has access to Islamic financial products and services. The Asian Development Bank (2016) found that financial inclusion in Indonesia is relatively low compared to other countries in the region, such as Malaysia and Thailand. For
instance, the percentage of the adult population with access to a bank account at a formal financial institution in Indonesia is 36 per cent, while in Malaysia it is 78 per cent and in Thailand 75 per cent. Likewise, the percentage of the adult population with access to formal borrowing in Malaysia is 20 per cent, in Vietnam 18 per cent, and in Thailand 15 per cent. In Indonesia, it is only 13 per cent. Also, Indonesia’s financial inclusion registered the lowest among Muslim countries, while Iran recorded the highest. Table 1 compares financial inclusion indicators in selected Muslim countries.

<table>
<thead>
<tr>
<th></th>
<th>Indonesia</th>
<th>Malaysia</th>
<th>Turkey</th>
<th>Saudi Arabia</th>
<th>Iran</th>
</tr>
</thead>
<tbody>
<tr>
<td>Account, rural (% age 15+)</td>
<td>47%</td>
<td>81%</td>
<td>65.4%</td>
<td>78.8%</td>
<td>94.7%</td>
</tr>
<tr>
<td>Account, income, poorest 40% (% age 15+)</td>
<td>36.6%</td>
<td>80.5%</td>
<td>56.4%</td>
<td>64.4%</td>
<td>93.2%</td>
</tr>
<tr>
<td>Account, income, richest 60% (% age 15+)</td>
<td>57%</td>
<td>88.5%</td>
<td>76.7%</td>
<td>76.4%</td>
<td>94.5%</td>
</tr>
<tr>
<td>Account (% age 15+)</td>
<td>48.9%</td>
<td>85.3%</td>
<td>68.6%</td>
<td>71.7%</td>
<td>94%</td>
</tr>
</tbody>
</table>

Table 1.1: Financial Inclusion Indicators among Muslim Majority Countries (2017)

This signifies that the Indonesian government cannot work alone to promote financial inclusion. Other stakeholders should also take part and bear responsibility for ensuring that no one is left unbanked. In this respect, Islamic financial institutions are expected to play a greater role in providing accessible financial products and services to all. Thus, it is imperative for an Islamic financial institution to design appropriate strategies for inclusion that will expand and enhance its reach, ensuring a larger segment of society benefits from financial products and services. Financial inclusivity would ensure inclusive growth, where the gap between the rich and the poor is less pronounced and people actively engage in the wealth generation process. The present study, therefore, undertakes to identify and propose institutions-based solutions and strategies to promote Islamic financial inclusion in Indonesia.

Following this introduction, the remaining paper is organised as follows. Part 2 is a literature review covering previous studies on Islamic financial inclusion. Part 3 discusses the methodology used for this study, while part 4 expounds the research findings. The final section concludes the study with a set of policy recommendations.
Literature Review

Islamic Financial Inclusion in Indonesia

Indonesia has vast potential to grow economically, with its abundant natural resources, geographic location, and the largest Muslim population in the world, all of which make it a lucrative destination for investment. As the sixteenth largest economy in the world, Indonesia recorded impressive economic growth of 5.02 per cent in 2019, despite a global economic slowdown. Developing its financial industry is essential to improve its economic climate and attract more investors. However, as of January 2020, Indonesia’s Islamic finance industry constitutes only 8.29 per cent of the country’s total overall finance industry assets.⁷

Indonesia’s Islamic finance sector remains untapped relative to other neighbouring countries, like Malaysia, despite Indonesia being the most populous Muslim country in the world with leverage over a dual banking model. The market share of Islamic banking assets (6.15 per cent as of February 2020) is a far cry from the regulator’s target of 10 per cent by 2020. Similarly, the demand for Islamic insurance (takaful) is relatively small compared to conventional insurance products, mainly due to a lack of awareness and understanding. As for the sukuk market, outstanding sukuk reached only 4 per cent, or less than USD 1 billion (IDR 29.907 billion), of Indonesia’s total debt capital market in March 2020. In contrast, the sukuk market in Malaysia made up 74 per cent, or more than USD 90 billion (RM 90-100 billion), of Malaysia’s total debt capital market at the end of 2019.

Nevertheless, there have been a number of attempts by the Indonesian government to increase shariah-compliant products and to improve both the quality and quantity of human resources in the Islamic financial industry. These include the initiative by the government and FSA to reinforce the roadmap to Islamic finance development for 2017-2019. This roadmap is expected to overcome various problems and challenges related to Islamic financial development, particularly in developing varieties of innovative products and in solving the shortage of human resources through a financial literacy agenda.⁸ KNKS (Komite Nasional Keuangan Syariah) was also established in 2017 to accelerate the growth of Indonesia’s Islamic finance sector. At the micro-level, the government and FSA launched a micro waqf bank in 2017 to expand access to shariah products and services for low-income communities. The waqf bank is expected to provide low-yield financing (around 3 per cent annually) to its low-income customers. Ultimately, all these initiatives are expected to boost Islamic banking and finance at a faster pace than its conventional peers.
Bringing in the issue of financial inclusion, the FSA (in 2017) conducted a “National survey on Indonesia’s financial literacy” to accelerate financial literacy levels within Indonesian society and encourage Indonesians to use financial products and services. According to this survey, in 2016 the average value of the Islamic financial inclusion index in Indonesia was 11.1 per cent, while the Islamic financial literacy index recorded an average of 8.1 per cent. The average value of the Islamic financial inclusion index is therefore, higher than that of the Islamic financial literacy index. In other words, it seems people who subscribe to Islamic financial services have insufficient information and knowledge about shariah-compliant products.

Also, the average value of the Islamic financial literacy index, at 8.1 per cent, is far below the conventional one, which registered 29.5 per cent. As such, out of 100 people in Indonesia, only eight had enough knowledge and information about Islamic financial services, while almost 30 had a good understanding of conventional finance. Similarly, the average value of the Islamic financial inclusion index (11.1 per cent) is far below the conventional financial inclusion index, which stands at 67.8 per cent. This reflects that, out of 100 people, only 11 use Islamic financial products and services, while 68 participate in conventional financial services. The fact that Indonesia is a majority Muslim country (87.2 per cent) does not, therefore, necessarily make Islamic finance mainstream. This presents a severe challenge for regulators and stakeholders alike who desire the acceleration of Islamic financial inclusion.

Across the Islamic financial sectors, the Islamic banking sector is a major contributor (9.6 per cent) to Islamic financial inclusion, followed by Islamic insurance (1.9 per cent), Islamic pawnbrokers (0.7 per cent), other financing institutions (0.2 per cent), and Islamic capital markets (0.05 per cent). Table 2.1 exhibits the index of Islamic financial inclusion based on sectoral composition.

<table>
<thead>
<tr>
<th>Sector</th>
<th>Islamic Financial Inclusion Index</th>
</tr>
</thead>
<tbody>
<tr>
<td>Islamic banks</td>
<td>9.6%</td>
</tr>
<tr>
<td>Islamic insurance (takaful)</td>
<td>1.9%</td>
</tr>
<tr>
<td>Islamic pawnshop</td>
<td>0.7%</td>
</tr>
<tr>
<td>Other financing institutions</td>
<td>0.2%</td>
</tr>
<tr>
<td>Islamic capital market</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Table 2.1: The index of Islamic financial literacy and Islamic financial inclusion (sectoral composition)

Source: OJK (2016)
Previous Studies

The issue of financial inclusion has gained considerable attention from many governments and central banks since the early 2000s. Many of them have listed financial inclusion in their development goals. For example, The United Nations Development Program’s (UNDP) Sustainable Development Goals (SDGs) include an endeavour to transform financial access into a critical enabler for its development agenda. The World Bank has, since 2011, initiated the compilation of a comprehensive data set on both how people use formal and informal financial services and why some people do not use financial services at all.

Evidence from the literature confirms that financial inclusion positively influences households and enterprises. Ownership of a bank account raises savings, encourages female empowerment, and boosts both consumption and productive investment. By contrast, lack of financial access leads to poverty due to the paucity of opportunities to save during liquidity surplus or to borrow in times of hardship.

Aduda and Kalunda advised that poverty eradication could be achieved through the development of the financial products and services sector, notably by ensuring availability to all market segments. Financial services can provide financial access opportunities, especially to poor households and economically disadvantaged regions.

The World Bank Group urged financial institutions to enhance their infrastructure and ability to offer products and services catering to the diverse needs of customers, whether of different demographics or different financial capabilities. The readiness of financial infrastructure will help create demand in society and assist IFIs in delivering their products properly.

Some studies have proposed risk-sharing as a means of strengthening the role of IFIs in financial inclusion. For example, Sheikh concluded that the application of risk-sharing and asset-backed Islamic microfinance could help promote financial inclusion.

Risk-sharing in Islamic microfinance serves as a perfect alternative to conventional debt-leveraging models; it could spur the economic activities of the under-served, low-income segments of Muslim countries, promoting equality.

In this respect, Islamic finance could facilitate financial inclusion via two mechanisms: risk-sharing concepts such as mudharabah and musharakah, and wealth distribution instruments like zakat, waqf, and sadaqah. Risk-sharing promotes financial inclusion because it creates a fair allocation of wealth between partners (in musharakah) and capital providers and workers (in mudharabah). Wealth distribution instruments, on the other hand, complement risk-sharing concepts to provide financial access to unbanked people.
The study by Ali, et al. suggested that the Indonesian government has put in place supportive regulation and infrastructure to help level up the usage and availability of Islamic financial products and services, particularly in the eastern regions of the country.24

A recent study on financial inclusion conducted by Ozili put forward the following financial inclusion determinants: financial innovation, poverty, financial sector stability, economic state, financial literacy, and regulatory frameworks.25 Furthermore, Kim, Yu and Hassan examined the effect of religiosity and social inequality on financial inclusion in 152 countries, including 48 OIC countries. Their study discovered that religious factors in both OIC and non-OIC countries, in addition to social inequality related to gender or educational attainment, impacted on financial inclusion levels.26

Despite the existence of past studies on financial inclusion, whether in Islamic or conventional literature, to the best of the current researchers’ knowledge, none have been carried out on the strategies required to strengthen Islamic financial inclusion based on expert judgment. Thus, the present study undertakes to fill this gap by examining the issue of Islamic financial inclusion in Indonesia using Analytic Network Process (ANP). The following section explains the research methodology underlying this study.

Research Methodology
This study employs Analytic Network Process (ANP) to achieve its research objectives. ANP is a mathematical theory developed by Saaty in 1996 as a new generation of Analytic Hierarchy Process (AHP). It is designed to enable a variable to deal systematically with dependence and feedback, which can capture and combine tangible and intangible factors by using a ration scale.

ANP is different from AHP. The former measures influence, while the latter identifies preference. ANP enables the researcher to examine the complex interrelationships between decisions and attributes, while AHP represents a framework with a unidirectional hierarchical relationship. The ANP feedback approach substitutes hierarchies with networks, in which the relationship between levels is not so easily categorised as higher or lower, dominated or passive, direct or indirect.27 An ANP network is constructed based on goals, criteria, sub-criteria and alternatives. Each level has an element. The levels in AHP are called clusters, comprising criteria and alternatives, commonly known as nodes.

So, the ANP method has been selected to uncover the most appropriate solutions and strategies for achieving Islamic financial inclusion in Indonesia. The ANP approach offers a framework for the decision-making process. The
method is designed in such a way that it is free from statistical issues like multicollinearity, and does not require an assumption of independence between higher and lower levels, or within the same level.28

Nevertheless, the researchers acknowledge that most of the existing literature applies the parametric statistical approach, using either primary or secondary data. However, the parametric approach is arguably less accurate for the decision-making process. ANP is, on the other hand, an expert-based methodology that helps researchers understand complex issues and offer more objective decision making. It is argued that expert-based academic research is a valid alternative methodology to arrive at more objective research findings.29

The ANP output is intended to define the influence of overall variables. Thus, the criteria should take their priority in the control hierarchy or network. Afterward, the ANP will set the comparison and synthesis to define the priority of the given criteria. The influence of variables in the feedback system concerning each criterion is then derived. The final step is the weight of the influence based on the significance level of the given criteria. The overall influence of each variable is then summarised.

Data
The ANP model uses primary data moved through several steps, namely: model decomposition through a literature review and focus group discussion; model quantification via a pairwise questionnaire; and synthesis and analysis (see Figure 3.1). The initial variables derive from previous research on financial inclusion and were used to construct the ANP framework. The draft of the ANP framework was subsequently confirmed through the Focus Group Discussion (FGD). In this study, the FGD respondents comprised 10 experts in the field of Islamic financial inclusion in Indonesia, representing three different groups: practitioners, academics, and regulators. The number of FGD participants generally ranged from between 10 and 12, guided by a moderator.30 Most researchers suggest the ideal number of participants in an FGD is between 6 to 12.31

The expert respondents all had vast industrial experience in the field of either Islamic banking, Islamic capital markets, or Islamic microfinance. The expert respondents with a regulatory background included representatives from the Central Bank of Indonesia and the Financial Services Authority of Indonesia. Meanwhile, the expert respondents from academia all came from reputable Indonesian universities. They were selected based on their academic publications on financial inclusion. In sum, the FGD respondents in this study were selected based on the following criteria:
Having selected the respondents using the above-mentioned criteria, the study asked 12 experts (four practitioners, four regulators, and four academics) to fill in the ANP simplified pairwise comparison questionnaires. Appendix 1 depicts the profiles of the expert respondents who participated in this study.

The Steps of ANP

ANP assumes three steps. First, a Focus Group Discussion (FGD) is conducted with academics, practitioners, and regulators to comprehend and confirm the identified determinants of Islamic financial inclusion. Second, the results of the FGD are used to develop the ANP network and survey instrument, which is then distributed to the identified expert respondents. Third, the ANP method is applied to determine the priority of Islamic financial inclusion determinants, so as to enable researchers to formulate objective policy recommendations. The extended steps of ANP are illustrated in Figure 3.1.
a. Model Construction

Model construction is the first phase in ANP. To construct the ANP model, the researchers conducted a FGD with ten expert respondents, as indicated earlier. To ensure an effective FGD, an experienced moderator was selected to lead the discussion. According to Dawson, Manderson, and Tallo, FGDs should begin with an opening and participant introductions, followed by the presentation of the main topic and overall research questions. The moderator will then lead and manage the flow of the discussion based on the specific research questions. The FGD will end with a closing statement from each participant and conclusion from the moderator. The constructed ANP model based on the FGD was subsequently validated by one expert, who was deemed the most knowledgeable respondent among his peers.

Based on the FGD results, this study develops a ANP model for institutional-based Islamic financial inclusion strategies. The institutional-based strategies include product compatibility, financial infrastructure, human development, and human creation. Figure 3.2 below outlines the ANP framework:

**Figure 3.2: The ANP Framework**
Based on the ANP framework in Figure 3.2, an ANP network for Islamic financial inclusion solutions in Indonesia was developed, as seen in Figure 3.3.
b. Model Quantification

In this phase, the ANP model computed the pairwise questionnaire using “Super Decisions Software” based on the developed network. A pilot project was carried out to ensure that respondents completed the questionnaire within a tolerable level of consistency. In this step, modifications to the questionnaire were allowed in order to attain the intended data set. From a theoretical perspective, ANP adopts supermatrix calculation to obtain eigenvector results. The eigenvector is derived from the matrix and supermatrix calculation based on the 1 to 9 fundamental scale, as follows:

<table>
<thead>
<tr>
<th></th>
<th>Equal importance</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>Moderate importance of one over another</td>
</tr>
<tr>
<td>5</td>
<td>Strong or essential importance</td>
</tr>
<tr>
<td>7</td>
<td>Very strong or demonstrated importance</td>
</tr>
<tr>
<td>9</td>
<td>Extreme importance</td>
</tr>
<tr>
<td>2, 4, 6, 8</td>
<td>Intermediate values</td>
</tr>
</tbody>
</table>

Use reciprocals for inverse comparisons

Table 3.1: Fundamental Scale
Source: Saaty (2007)


c. Results Analysis

In this phase, results and a synthesis drawn from the computation of the super decision software were presented and exported to Excel. Afterwards, the study calculated and re-synthesised a geometric mean/average for all respondent responses to produce scientific ‘consensus’ result analysis.

Furthermore, the study computed Kendall’s co-efficient of concordance (or Kendall’s W) to define raters’ or respondents’ agreement levels. The study also employed the detailed (individual) and overall (geometric mean) results to interpret and formulate conclusions and policy recommendations. Kendall’s co-efficient of concordance was defined when (W;0< W≤1), whereby W=1 shows perfect agreement among respondents and W=0 perfect disagreement. An intermediate value of 0<W<1 means a higher or lower level of agreement among raters or respondents. The higher the value indicates, the higher the level of agreement.
Legendre calculated Kendall’s (W) co-efficient based on the following assumption: If the object \(i\) is at the rank \(r_{ij}\) according to judge number \(j\), where there are a total of \(n\) objects and \(m\) judges, then the overall ranking for object \(i\) is:

\[
R_i = \sum_{j=1}^{m} r_{ij}
\]  \hspace{1cm} (3.1)

When the mean from the total ranking is:

\[
R = \frac{1}{2}m (n+1)
\]  \hspace{1cm} (3.2)

The formula that calculates the sum of deviation quadratic (S) is:

\[
S = \sum_{i=1}^{n} (R_i - \bar{R})^2
\]  \hspace{1cm} (3.3)

and Kendall’s \(W\) is formulated as:

\[
W = \frac{12S}{m^2(n^2-n)}
\]  \hspace{1cm} (3.4)

Where \(W\) is Kendall’s co-efficient, \(n\) is the total number of objects, \(m\) is the total number of judges, and \(s\) is the sum of quadratic deviation.

**Findings and Discussion**

This section presents the strategies and solutions for Islamic financial inclusion in Indonesia. Based on the expert FGD and ANP results, the study determined the priority of strategies and solutions by exhibiting geometric mean (GM) values from the *eigenvalue* of all respondents.

Overall, **product compatibility and financial infrastructure** were the two most important solutions IFIs have to promote Islamic financial inclusion in Indonesia (see Figure 4.1). Human capital development and demand creation, on the other hand, are the two least important solutions. Of the two most important solutions, practitioners believed financial infrastructure should be prioritised, putting product compatibility second.
Financial inclusion involves ensuring all layers of society have access to financial products and services, meaning the latter must be affordable and tailor-made to the needs of customers. For obvious reasons, the features offered by a product or service will determine whether an individual participates in them. Previous studies have suggested that cost variables, product design, and sophisticated documentation are all barriers to financial inclusion.

Besides the above, IFIs must improve their financial infrastructure, including payment systems, branches, and number of ATMs, so that they are easily accessible to all layers of the segment. Lack of supporting infrastructure leads to financial exclusion. Some studies, for example, have found a negative correlation between distance and financial inclusion: the greater the distance between a person and their nearest financial centre, the smaller the likelihood of their being financially included. Therefore, providing adequate infrastructure is vital for the improvement of financial access. Indeed, in Indonesia, the distance between people and their nearest banking facilities, particularly in rural areas, is the main factor behind financial exclusion. This is particularly true since each IFI branch is estimated to serve up to 100,000 people. Therefore, the Indonesian government needs to increase the availability of Islamic financial resources, especially in the east of the country (East Nusa Tenggara and Papua), through supportive regulation and infrastructure. At present, the distribution of IFI branches is...
highly concentrated on Java (west Java, Jakarta, and east Java). This results in low penetration elsewhere.\textsuperscript{39}

Increased financial infrastructure would also create demand in society and help IFIs deliver their products effectively.\textsuperscript{40} The World Bank Group supported this conclusion, suggesting that financial institutions strengthen their financial infrastructure and capacity to offer better Islamic products and services catering to a wider range of customers, demographics, and financial concerns. This will enhance financial inclusion.\textsuperscript{41}

The detailed ANP results also exhibit the priority of each subcluster (see Figure 4.2). Under the product compatibility cluster, simple procedure and documentation, as well as affordable cost, are the two essential solutions for Islamic financial inclusion. This finding supports previous studies (Allen et al., 2012 and Beck et al., 2008) suggesting that lack of documentation and cost variables are the two main obstacles to financial inclusion.\textsuperscript{42} The 2017 Global Findex Survey also cited cost and distance (20 per cent) and complicated documentation (10 per cent) among the essential reasons why people are unbanked.\textsuperscript{43}

Additionally, SNKI (National Secretary for Inclusive Finance) reported that Indonesia’s agricultural sector possessed the lowest level of account ownership, as compared to professionals and government workers.\textsuperscript{44} The agricultural sector...
is mostly excluded from financial access due to complicated procedures. Many agricultural workers fail to fulfil the document requirements set by financial institutions. In addition, many people believe that Islamic banks require more complicated procedures than conventional banks. Simple procedures and easy documentation requirements are, therefore, two important factors for financial access.

Integrated credit information and network connectivity are the two leading solutions under the financial infrastructure cluster. These are followed by product pricing systems, mobile infrastructure coverage, and market intelligence systems, respectively. Nevertheless, each group of respondents had different perspectives on the priority levels in this cluster. Practitioners put network connectivity as their top priority, while academics and regulators believed the product pricing system was the most important solution.

Integrated credit information is designed to provide a secure payment system to enable lower costs and reduced risk for financial service providers serving low-income segments. Meanwhile, network connectivity serves as a system and communication link between IFIs and their agent channel, or between IFIs and customers, during a transaction. Lack of connectivity to support technology adoption in rural areas is a significant obstacle for financial access, not only for communities, but also IFIs. Therefore, this study suggests the enhancement of network connectivity and the adoption of financial technology (fintech) to strengthen financial inclusion in Indonesia.

Fintech in particular could serve as the perfect device to reinforce financial inclusion. Integrating traditional financial services with technology could facilitate financial access. The use of digital finance technologies, such as blockchain and crowdfunding, could lower transaction costs and minimise asymmetric information. Santander FinTech issued a report in 2015 estimating that blockchain technology could reduce the transaction costs attributable to crossborder payments, securities trading, and regulatory compliance by between US$15-20 billion (RM62-82 billion) per annum by 2022. Moreover, blockchain’s ability to transmit and record the ownership of digital assets and to immutably store information — and where all blockchain participants have access to the same information — might significantly reduce information asymmetries. Fintech can also open up financial access to unbanked individuals. According to a World Bank estimate, there are approximately 240-334 million people in developing economies who could participate in crowdfunding. Fintech is also a powerful tool for widening access to, and therefore the outreach of, Islamic social finance instruments such as zakah, waqf and sadaqah.

In Indonesia, based on a survey by the World Bank (2018), nearly 71 per cent of adults are likely to make or receive digital payments. Thus, the utilisation
of fintech by Islamic financial services could potentially help low-income communities and other unbanked segments access financial products and services.52

As for the human capital development cluster, training and education were accorded the highest priority, followed by capacity building, networking, social awareness, and risk management culture, respectively. By contrast, regulators considered capacity building to be the most crucial strategy within this cluster.

Training and education would increase financial literacy and public awareness of financial products.53 Certainly, studies show that a lack of human capital and high financial illiteracy prevent many people from accessing financial services.54 Therefore, Waspodo suggested the need to develop human capital through education on Islamic financial products,55 with social awareness and attitudes being two additional key performance indicators for the competitiveness of IFI staff.56

The highest priority solution within the demand creation cluster was the presence of a sustainable community programme, followed by proactive service, building trust and social bonding, integrated promotion, and entrepreneurial empowerment. A sustainable community programme would involve activities that fulfil the expectations of a community while maintaining sufficient resources for the next generation. In this regard, the government and IFIs need to integrate their Islamic finance campaigns into existing community- and religious-based platforms, such as Posyandu (Pos Pelayanan Terpadu – Integrated Health Post), pengajian (informal religious teaching), arisan (rotating savings club), and informal religious teaching for women (pengajian ibu-ibu). These platforms would facilitate the promotion of IFI products and services, and also assist discussion of the common problems and challenges associated with financial access.

This finding is consistent with Social Learning Theory (SLT), which postulates that individual behavioural patterns may be affected by the behaviour of others through a process of differential support.57 In other words, an individual can accept or reject certain decisions because of another’s influence. Indeed, a plethora of literature confirms that acceptance of and participation in Islamic banking will be influenced by surrounding references, including parents, relatives, friends, and the wider community.58 SLT also argues that skilful and knowledgeable individuals can have a strong motivational effect on the general population. Therefore, informal religious leaders (ustadz, kyai, sheikh) could play a greater role in enhancing financial literacy, decision making, and boosting confidence in IFIs, improving access to Islamic financial services.
Conclusion and Policy Recommendations

This paper has proposed several solutions to strengthen Islamic financial inclusion in Indonesia. Ranked by their level of significance, these were: 1) product compatibility (0.2850), 2) financial infrastructure (0.2527), 3) human development (0.2023), and 4) demand creation (0.1861). Based on these findings, the study recommends the following:

- IFIs in Indonesia should strengthen the appeal of their products and services using more straightforward procedures and documentation, as well as more affordable cost and pricing.
- IFIs should enhance their financial infrastructure by establishing integrated credit information and providing more comprehensive network connectivity.
- IFIs should develop the expertise and skills of their staff via systematic and continued training and educational programmes.
- IFIs should integrate their Islamic finance campaigns into pre-existing and sustainable community- and religious-based platforms, such as Posyandu (Pos Pelayanan Terpadu – Integrated Health Post), pengajian (informal religious teaching), arisan (rotating savings club), and informal religious teaching for women (pengajian ibu-ibu).

Appendix 1: ANP Respondent Profile

<table>
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<tr>
<th>No</th>
<th>Name</th>
<th>Institution</th>
<th>Designation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>RR</td>
<td>Lembaga Penjamin Simpanan (LPS)</td>
<td>Lead Specialist, International Affairs</td>
</tr>
<tr>
<td>2</td>
<td>ITS</td>
<td>Bogor Agriculture University (IPB)</td>
<td>Lecturer</td>
</tr>
<tr>
<td>3</td>
<td>IA</td>
<td>Bank Muamalat Indonesia</td>
<td>Board of Director</td>
</tr>
<tr>
<td>4</td>
<td>AS</td>
<td>Bank Indonesia Institute</td>
<td>Researcher</td>
</tr>
<tr>
<td>5</td>
<td>ES</td>
<td>Otoritas Jasa Keuangan (OJK)</td>
<td>Deputi Komisioner Pengawas Industri Keuangan Nonbank (IKNB)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>I Otoritas Jasa Keuangan (OJK)</td>
</tr>
<tr>
<td>6</td>
<td>AAA</td>
<td>Bank Indonesia Institute</td>
<td>Senior researcher</td>
</tr>
<tr>
<td>7</td>
<td>EF</td>
<td>Paramadina Islamic Management Institute</td>
<td>Lecturer</td>
</tr>
<tr>
<td>8</td>
<td>DA</td>
<td>Bursa Efek Indonesia (BEI)</td>
<td>Market Development Unit, Indonesia Stock Exchange</td>
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</table>
Expert Respondents of ANP Pair-Wise Comparison Questionnaire

<table>
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<th>Name</th>
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<th>Designation</th>
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<tbody>
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<td>RR</td>
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<td>Lead Specialist, International Affairs</td>
</tr>
<tr>
<td>2</td>
<td>AAA</td>
<td>Bank Indonesia Institute</td>
<td>Regulator (Senior Researcher)</td>
</tr>
<tr>
<td>3</td>
<td>ES</td>
<td>Otoritas Jasa Keuangan (OJK)</td>
<td>Regulator (Deputi Komisioner Pengawas Industri Keuangan Nonbank (IKNB) I Otoritas Jasa Keuangan (OJK))</td>
</tr>
<tr>
<td>4</td>
<td>DA</td>
<td>Bursa Efek Indonesia (BEI)</td>
<td>Regulator (Market Development Unit, Indonesia Stock Exchange)</td>
</tr>
<tr>
<td>5</td>
<td>HH</td>
<td>BTPN Syariah</td>
<td>Practitioner (Business Development Head, BTPN Syariah)</td>
</tr>
<tr>
<td>6</td>
<td>AH</td>
<td>BPRS Amaanah Ummah</td>
<td>Practitioner (Marketing Director)</td>
</tr>
<tr>
<td>7</td>
<td>SA</td>
<td>MNC Sekuritas</td>
<td>Practitioner (Manager)</td>
</tr>
<tr>
<td>8</td>
<td>SW</td>
<td>BMT Sidogiri</td>
<td>Director of Marketing</td>
</tr>
<tr>
<td>9</td>
<td>ITS</td>
<td>Bogor Agricultural University (IPB)</td>
<td>Academics (Lecturer)</td>
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<tr>
<td>10</td>
<td>LT</td>
<td>STEI Tazkia</td>
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<td>11</td>
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<td>Academics (Lecturer)</td>
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<td>12</td>
<td>HT</td>
<td>Ibn Khaldun University</td>
<td>Academics (Lecturer)</td>
</tr>
</tbody>
</table>

Notes

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