Sharia Finance & Women’s Financial Inclusion in Indonesia

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Executive Summary

Indonesia has the largest number of Muslims of any country in the world, at 237 million. In recent years, the national Government of Indonesia and some of its province-level governments have shown interest in increasing the availability of Sharia-compliant financial products and services for Indonesians. Simultaneously, the country aims to reach 90 percent participation in formal financial services by 2024. Despite growing usage of both conventional and Sharia finance, Indonesia lags behind its counterparts in financial inclusion and women’s economic empowerment. Given public sector support, expanding availability of Sharia-compliant financial services, and ambitious financial inclusion goals, how might Sharia finance better work for women’s financial inclusion in Indonesia? Findings have relevance for audiences including providers of conventional and Sharia-compliant financial products and relevant policymakers.

To undertake this research, Women’s World Banking utilized a mixed methods approach (using both quantitative and qualitative methodologies) to explore the relationship between Sharia finance, women’s financial inclusion, and women’s economic empowerment. Methods included secondary data analysis, 16 key informant interviews, and 24 in-depth interviews with Indonesian women customers. The authors find that in order to be an effective lever of financial inclusion and women’s economic empowerment, Sharia-compliant products and services must be designed and marketed with women customers’ needs in mind. Our research suggests that as the Indonesian government and financial services providers strengthen Sharia finance and increase its market share, significant opportunities exist for including women in this strategy. We find:

- In general, Indonesian women customers of financial services have little familiarity with Sharia-compliant offerings, but they desire to learn more so they can expand finance options for their business, family, and personal needs.
- Although religious values are central in some women’s decision-making regarding the use of Sharia-compliant financial services, most women count Sharia compliance as one factor among many when selecting from a variety of financial products and services.
- Islamic finance experts are energized both by the theory of profit-and-loss-sharing underpinning Sharia finance and by its potential for women’s financial inclusion and economic empowerment. In practice, the sample of experts and customers interviewed perceive few differences in operation between Sharia and conventional financial products currently offered in the market. Some experts emphasize the consumer experience should feel similar in quality, as the differences are unseen by consumers.
- Indonesian financial services providers offering Sharia-compliant products identify four key growth opportunities for Sharia finance in Indonesia: additional regulatory structures, improved infrastructure, expansion of Sharia finance into rural areas, and strengthened Sharia financial literacy among customers.
- There are opportunities for greater representation of women in decision-making positions across the Sharia finance space, from directors of development at institutions to front-line staff supervisors. Increased representation will naturally shift mental models of customers to include women.
Introduction

Indonesia has the largest Muslim population (231 million) in the world, with nearly half of the country's total population financially included and relative parity between men and women (SNKI 2021). Indonesia has made significant strides in women's financial inclusion (from 27.9 percent of women with access to financial sector accounts in 2014 to 61.6 percent in 2020); yet about 33 million women remain outside the financial system. In response to the continued gap, Indonesia has set ambitious goals to include 90 percent of adults in the financial system by 2024, with a special emphasis on microcredits to catalyze micro, small, and medium-sized enterprises, especially those led by women (SNKI 2021).

Sharia finance – financial services designed and processed in accordance with Islamic jurisprudence – may provide a potential, yet unrealized, avenue towards women's financial inclusion in Indonesia.

We examine this linkage and use mixed methods to probe how the dual efforts of Sharia finance and financial inclusion could impact women's economic empowerment. This research advances a burgeoning focus on women's financial inclusion and Islamic finance. Islamic scholars and development economists have only minimally incorporated gender analysis into their work, making Women's World Banking’s research all the more relevant, particularly when understanding the potential for Sharia finance to help Indonesia reach its financial inclusion goals.

Use of Islamic financial tools is on the rise among some sectors of Indonesian society. While only 6 percent of all Indonesians have used Sharia-compliant financial products, compared to the roughly 70 percent of Indonesians who make use of any financial products, take-up among select Sharia-compliant products —particularly those offered by banks— has grown (SNKI 2021). Though overall usage of Sharia banking grew by roughly 1 percentage point between 2018 and 2020 (SNKI 2021), some Sharia banking products and services saw significant growth in usage. For instance, Reuters (2021) found that savings in Islamic banks increased by 80 percent between 2018 and March 2021, outperforming conventional banking by 18 percent.

While Islamic banking’s growth in Indonesia still lags behind that of other Organization of Islamic Cooperation Countries (OICC), Sharia-compliant asset growth has outpaced internal conventional bank asset growth in recent years. According to Otoritas Jasa Keuangan (OJK) (2021), Indonesia’s Financial Services Authority, Sharia-compliant assets grew by 9.5 percent between 2019 and 2020, and 15.7 percent between 2020 and 2021. By

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1 See Women's World Banking 2021 report entitled "Women’s Economic Empowerment and Financial Inclusion in Indonesia" for more context. Available at https://womensworldbanking.org/
2 Sharia finance is also known as Islamic finance.
comparison, conventional banking assets rose 5.9 percent between 2019 and 2020, and 7.7 percent between 2020 and 2021. Sharia asset growth rates should be understood against the context of having a low base relative to conventional financial assets. Given the significant population of Muslims in Indonesia, economists see enormous potential for Sharia finance in the country's financial market.

This research is especially timely and important now, as Indonesia’s Coordinating Ministry of Economic Affairs recently coupled oversight of financial inclusion and Sharia finance under the Assistant Deputy to the Deputy Minister for Macroeconomic and Financial Coordination. The structural merging of the two efforts opens space to investigate the relationship between Sharia finance and women's financial inclusion. Availability of Sharia-compliant financial services has increased, with support from Bank Indonesia. In February 2021, Indonesia launched Bank Syariah Indonesia, the country’s largest Sharia-compliant bank, following the merger of Sharia subsidiaries of Bank Rakyat Indonesia, Bank Mandiri, and Bank Negara Indonesia. So, too, in January 2019, the Aceh province announced that all of its non-Sharia financial providers would be replaced with Sharia-compliant ones. The decision in Aceh sets the province apart from most regions of Indonesia in which Sharia-compliant financial services are still offered alongside conventional banking. The finance sector and development organizations are paying attention to the shifts in prevalence of Sharia-compliant financial services in Indonesia and examining what these changes might mean – particularly for women.

Research questions and design

To understand the practice of Sharia finance and its relationship to women’s financial inclusion and economic empowerment, Women's World Banking developed a mixed-methodology research project which answers the following three research questions:

- **What are the relationships—hypothetical and evidence-based—between Sharia-compliant financial services, women’s financial inclusion, and women’s economic empowerment in Indonesia?**
- **What opportunities exist for Sharia-compliant financial services to foment women’s financial inclusion and economic empowerment?**
- **Finally, what aspects of Sharia or conventional finance drive the decisions of low- to middle-income Indonesian women in terms of financial services usage?**

In section one, we broadly review the current landscape of Sharia finance in Indonesia. In section two, we draw on data from interviews with experts to examine the potential of Sharia finance to advance women’s financial inclusion and economic empowerment. Then, in section three, we synthesize qualitative data from in-depth interviews with 24 Indonesian women to offer four personas of women who may use Sharia-compliant credit products. Thereafter, in section four, we detail challenges facing Sharia finance in Indonesia, as expressed in interviews with financial services providers (FSPs). We conclude with recommendations for financial services providers and policy makers to leverage Islamic finance to achieve stronger financial inclusion for women.

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3 The timing of this research coincides with the Islamic Development Bank’s ongoing program, “Enhancing Women’s Financial Inclusion Through Islamic Finance.”
Introduction

Box 1: Methodology

To examine how Islamic finance in Indonesia may relate to increases in women’s financial inclusion, we synthesized the following methods: literature review, secondary data analysis, key informant interviews, and interviews with women customers of financial services. We first reviewed scholarship from multiple disciplines on financial inclusion, women’s economic empowerment, and gender, identifying gaps in knowledge about women’s relationships with Islamic finance. Using the 2020 Financial Inclusion Insights data, we analyzed rates of uptake of Sharia-compliant and conventional financial services by region, sex, age, marital status, education, and position within the family, in addition to analyzing the variety of financial products used. Information from the literature review and data analysis shaped interviews with 16 key informants: eight global experts from various countries including Malaysia, Pakistan, and the United Arab Emirates, among others, as well as eight Indonesia-based experts. Interviews with 24 Indonesian women, 12 of whom have been customers of Sharia-compliant financial products and 12 of whom have never used them, provided insights into women’s knowledge and use of Sharia-compliant financial services. While the limited sample size does not provide results representational of Indonesia’s population, the findings presented indicate important areas for future research for policymakers, financial service providers and designers of financial products for women. Figure 1 displays our research design for this project.

Figure 1: Research design

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4 Given the overall market share of Sharia-compliant products from large banks in Indonesia, our primary research focused on these institutions and their engagement with customers. By making this decision, we missed collecting observations from customers of microfinance institutions or fintechs, which together form a much smaller proportion of the Indonesian population. For instance, only 1.5 percent of the sample had also used a product or service from a microfinance institution at some point in their lives. We incorporated interviews with representatives from these smaller sub-industries in our key informant interviews, but we do not consistently call out separate findings throughout the report.
Financial Inclusion and Sharia Finance in Indonesia

Both financial inclusion and Sharia finance have a long history in Indonesia. Attention to the establishment, evolution, and current landscape of both of these are key to understanding Sharia finance’s potential for financial inclusion and subsequently for women’s economic empowerment.

Indonesia’s financial inclusion goals and demographics of Sharia finance use

Indonesia’s financial inclusion has seen impressive growth in recent years: formal financial inclusion for adults increased from 27.9 percent of women with access to financial sector accounts in 2014, to 61.6 percent in 2020 (SNKI 2021). Adult women more than doubled their rate of financial inclusion between 2014 and 2020, closing the gender gap. By some measures, women in Indonesia are even more likely to have access to formal financial services. In 2018, 55.7 percent of adults owned a bank account, a number that grew to 61.7 percent of adults in 2020 (SKNI 2021).

Indonesia’s National Women’s Financial Inclusion Strategy provides a unique opportunity to link Islamic banking to financial inclusion goals. Launched in May 2019, the Islamic Economy Masterplan, designed by the Government of Indonesia and stakeholders of the National Sharia Finance Committee (KNEKS), endeavors to establish guidelines supporting the development of various Islamic economic sectors between 2019 and 2024. The masterplan aims to create “an independent, prosperous and civilized Indonesia by becoming the center of the world’s leading Islamic economy” (p. xv). Four main goals contribute to this mission: 1) strengthening the Halal value chain; 2) increasing Islamic finance; 3) developing micro, small, and medium enterprises (MSMEs), and 4) improving the digital economy. To achieve these four goals, the Islamic Economy Masterplan also highlights five key strategies to cultivate the necessary ecosystems: 1) strengthening regulation and governance, 2) increasing public awareness and literacy, 3) developing capacity building and research, 4) improving quality and quantity of human resources, and 5) maximizing data, information, and technology (also see Figure 8).

To analyze Sharia finance within Indonesia’s Islamic Economy Masterplan, we utilized the 2020 Financial Inclusion Insights data, with microdata representing all Indonesians age 15+. For questions relating to Sharia banking, the sample size was 7,574. The survey was fielded between October and December 2020. Using these data, we examined take-up of Sharia-compliant and conventional banking according to region, sex, age, marital status, education, and position within the family, in addition to reviewing the variety of financial products used. To conduct our analysis, we weighted the data according to the official 2020 population projections shared by the Indonesia Bureau of Statistics (BPS). Of the sample, 58 percent were women and 41 percent were men. Our sample size was split between urban and rural sites: 50.3 percent lived within urban residences while 49.7 percent lived in rural residences. The majority (67.6 percent) of our sample was married, with 20.3 percent unmarried, and 12.2 percent widowed. Only 5.2 percent had no formal education. The most frequently reported level of education completed...
was high school (31.3 percent), followed by primary school (27.3 percent), and junior high (24.9 percent), with some individuals receiving undergraduate and graduate degrees. The majority (77.9 percent) of our sample had their own cellphone and, of these cellphone users, 70.9 percent had phones with internet access while 27.8 percent only accessed SMS.

We explored take-up across four categories of use of financial products and services: exclusively Sharia-compliant, exclusively conventional, both Sharia and conventional, and neither Sharia nor conventional. The majority (55.9 percent) of men and women exclusively used conventional finance. Over a third (37.9 percent) reported that they never used Sharia or conventional products. A significantly smaller number (3.1 percent) used both conventional and Sharia finance. Exclusive use of Sharia finance was the least frequent: only 2.9 percent of men and women exclusively used Sharia finance products. To understand the overall take-up of Sharia finance, we combined adults who exclusively used Sharia-compliant products and services with those who identified as using both conventional and Sharia-compliant banking. We found that 6.1 percent of adults used Sharia-compliant products and services, while 93.9 percent of adults never used Sharia finance. By comparison, Wave Four of the FII 2020 survey, which was conducted between March and May 2019, found 8.9 percent of sampled adults had used a Sharia finance product.

More specifically, we analyzed usage of exclusively Sharia, exclusively conventional, both Sharia and conventional, and neither Sharia and conventional across financing, transfers, savings, and depositing at banks or microfinance institutions. In 2020, 61.7 percent of adults owned an account and 81.4 percent had ever used a product or services from a formal financial institution. While fewer adults used only Sharia-compliant products and services, more adults were inclined to use both Sharia and convention bank accounts to invest money (16.9 percent), pay taxes and fees to the government (11.4 percent), and pay bills (10.3 percent). Exclusive use of Sharia-compliant transactions at banks were most frequent to pay taxes, fines, and fees to the government (6.4 percent), pay for school fee (4.5 percent), and save money (4.3 percent). Figure 2 displays the breakdown of only Sharia, only convention, both Sharia and conventional, and neither Sharia nor conventional across transaction type from a bank account.

**Figure 2: Sharia versus conventional account use by transaction type**

![Figure 2: Sharia versus conventional account use by transaction type](image)

*Source: Authors, based on data from Financial Inclusion Insights (2019)*

Use of Sharia-compliant products and services was less frequent in taking loans or financing from banks or microfinance institutions than in making transactions through bank accounts. In most cases the difference between

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9 Low amounts of take-up may be due to lower supply-side offerings in Sharia-compliant products and services.
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exclusively Sharia-compliant and exclusively conventional financing was a percentage point or less. The only meaningful differences were in taking a loan with collateral from a bank (7.3 percent chose only conventional finance compared to 0.5 percent who chose Sharia) and taking a loan from a microcredit program from a bank or non-bank (6.4 percent were conventional compared to 0.4 percent that were Sharia-compliant). Figure 3 illustrates Sharia and conventional users who have ever used products and services related to loans or financing.

**Figure 3: Sharia versus conventional loan use by loan type**

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Only Sharia</th>
<th>Only Conventional</th>
<th>Both</th>
<th>Neither</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used a pawnshop/Rahn in bank</td>
<td>0.2%</td>
<td>0.5%</td>
<td>0.0%</td>
<td>99.1%</td>
</tr>
<tr>
<td>Took a vehicle loan from a bank</td>
<td>0.1%</td>
<td>1.3%</td>
<td>0.0%</td>
<td>98.3%</td>
</tr>
<tr>
<td>Took a micro loan/financing from a bank and other microfinancial institution</td>
<td>0.2%</td>
<td>0.6%</td>
<td>0.0%</td>
<td>99.0%</td>
</tr>
<tr>
<td>Took a loan/financing without collateral from a bank</td>
<td>0.3%</td>
<td>1.0%</td>
<td>0.0%</td>
<td>98.5%</td>
</tr>
<tr>
<td>Took a loan/financing with collateral from a bank</td>
<td>0.5%</td>
<td>7.3%</td>
<td>0.1%</td>
<td>91.9%</td>
</tr>
<tr>
<td>Took a loan of a micro credit program (KUR/KUR Sharia) from a bank or non-bank</td>
<td>0.4%</td>
<td>6.4%</td>
<td>0.0%</td>
<td>93.1%</td>
</tr>
<tr>
<td>Took a housing/apartment loan from a bank</td>
<td>0.1%</td>
<td>0.6%</td>
<td>0.0%</td>
<td>99.1%</td>
</tr>
<tr>
<td>Other products/services from bank that weren't mentioned</td>
<td>0.0%</td>
<td>0.1%</td>
<td>0.0%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Got a lease/Ijarah in bank</td>
<td>0.1%</td>
<td>0.0%</td>
<td>0.0%</td>
<td>99.6%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>0.1%</td>
<td>1.1%</td>
<td>0.0%</td>
<td>98.5%</td>
</tr>
</tbody>
</table>

*Source: Authors, based on data from Financial Inclusion Insights (2019)*

We examined take-up of Sharia-compliant products and services across demographics, such as marital status, relationship to household head, and age. We found that there was no meaningful difference between married, non-married, and widowed individuals in take-up of Sharia finance. Similarly, among household members, there was no meaningful difference that indicated whether they might participate in Sharia finance. More differences emerged when examining individuals’ ages. Data indicated that individuals in their 80s-90s, and those in their 20s, were respectively the two greatest users of Sharia-compliant products and services compared to other age groups. Roughly 8.3 percent of persons between 80 and...
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90 years old, and 4.5 percent of persons 20-29 years old, used Sharia finance according to the weighted average. These numbers are also proportional to overall use of financial services.

We further investigated the relationship between gender and take-up of Sharia financial products and services. Our sample indicated that the numbers of men and women who exclusively used Sharia finance were similar, with women slightly ahead: 3.2 percent of women used only Sharia finance, compared to 2.6 percent of men. Similarly, 3.0 percent of women and 3.1 percent of men used both Sharia finance and conventional products. Men and women had similar rates of take-up in conventional finance as well: 54.5 percent of women and 56.3 percent of men reported exclusively using conventional products and services. Lastly, 37.9 percent of men and 39.3 percent of women reported that they used neither conventional nor Sharia finance. Figure 4 illustrates the distribution of gender across users of Sharia and conventional finance. This data suggests that gender is not a significant discriminant or determinant of financial services usage for neither Sharia nor conventional banking.

Figure 5: Rural/urban divide among Sharia finance users

![Figure 5: Rural/urban divide among Sharia finance users]

Source: Authors, based on data from Financial Inclusion Insights (2019)

exclusively used Sharia finance compared to 3.1 percent of rural adults. There was a slightly larger gap when comparing urban and rural users of both Sharia and conventional products: 3.5 percent of urban adults used both, compared to 2.6 percent of rural users. The greatest gap is found in the difference of more than 9 percentage points between urban and rural users who never took up Sharia or conventional finance. This gap shares a similar pattern with bank account ownership in urban and rural Indonesia: 66.2 percent of urban adults owned bank accounts compared to 55.7 percent of rural adults.

Next, we analyzed the relationship between take-up of Sharia finance and geographic location in rural versus urban areas and across provinces. Throughout the sample, urban adults were more likely than rural residents to exclusively use conventional finance and were less likely to have never used Sharia or conventional finance. As displayed in Figure 5, there was little difference in comparing take-up of only Sharia finance between urban and rural adults: 2.8 percent of urban adults exclusively used Sharia finance compared to 3.1 percent of rural adults. There was a slightly larger gap when comparing urban and rural users of both Sharia and conventional products: 3.5 percent of urban adults used both, compared to 2.6 percent of rural users. The greatest gap is found in the difference of more than 9 percentage points between urban and rural users who never took up Sharia or conventional finance. This gap shares a similar pattern with bank account ownership in urban and rural Indonesia: 66.2 percent of urban adults owned bank accounts compared to 55.7 percent of rural adults.

10 It is not clear why 80- to 90-year-old adults have a higher rate of take-up of Sharia-compliant products. We determined that take-up is not primarily attributed to government-to-person payments as 52.1 percent of this age group received funding from the government, which is a similar percentage as adults in their 50s, 60s, and 70s. For those who received government payments, 3.2 percent reported they received government payments through only Sharia-compliant products and services, and 2.8 percent reported that they received money from the government through both Sharia-compliant and conventional finance. Most (58.2 percent) received money from the government only through conventional finance.
The data also revealed that take-up of Sharia finance varied across provinces. FII data indicated that exclusive users of Sharia finance were found in Nusa Tenggara Timur (23.8 percent), Aceh (15.9 percent), Sumatera Barat (7.0 percent), Jawa Barat (3.2 percent), Jawa Tengah (2.7 percent), and Jawa Timur (2.1 percent). Of these top six provinces, only four had adults who used both Sharia and conventional finance. Aceh had 10.3 percent of adults using both Sharia and conventional, followed by Jawa Tengah (4.3 percent), Jawa Barat (3.8 percent), and Jawa Timur (2.0 percent). Both Nusa Tenggara Timur and Sumatera Barat had no adults using both Sharia and conventional finance. Figure 6 illustrates the percentage of adults using Sharia finance exclusively, across Nusa Tenggara Timur, Aceh, Sumatera Barat, Jawa Barat, Jawa Tengah, and Jawa Timur.

Figure 6: Exclusive Sharia finance users by province

Source: Authors, based on data from Financial Inclusion Insights (2019). Given the small sample of Sharia users in the survey from provinces outside of the six pictured, we did not include provinces with sample sizes below 10.

We further examined the relationship between the use of Sharia finance and the use of formal financial institutions. We found that users of Sharia and conventional finance identified three main reasons to take a loan from a formal financial institution: overall fee structure, proximity to one’s home, and recommendation by a neighbor. Corroborated by interviews detailed in the sections that follow, for most users, Sharia-compliance is one of multiple factors influencing the purchase or sale of a financial service.

11 We found it surprising that Nusa Tenggara Timur had the greatest weighted number of Sharia users in Indonesia given that the population of this province identifies as primarily Catholic or Christian. Additional research is required to explore incentives for take-up of Sharia-compliant finance in this region specifically.
**Box 2: Sharia compliance in Indonesia and other Organization of Islamic Cooperation members**

The Islamic banking industry, currently worth over $2.2 trillion globally and expected to reach over $3.6 trillion in 2024, comprises roughly 1 percent of all financial assets today (Reuters 2021; BYN Mellon 2021). Islamic banking is growing rapidly across the world’s top markets for Islamic finance: Saudi Arabia, Malaysia, United Arab Emirates, Oman, and Iran. Figure 7 shows the distribution of global Islamic banking assets in the 3rd quarter of 2019 by country. Indonesia follows Iran, Saudi Arabia, Malaysia, UAE, Kuwait, Qatar, Turkey, and Bangladesh. Second-tier markets like the Philippines, Singapore, and Pakistan have seen increased uptake of Sharia-compliant banking, a move away from conventional banks, and the opening of new Islamic bank branches.

**Figure 7: Distribution of global Islamic banking assets by country (Q3 2019)**

*Source: Islamic Financial Services Industry Stability Report 2020*

Within this context, Indonesia’s Islamic finance is viewed as one of the fast-growing markets for Sharia-compliant products, though the country still lags behind other OICC members in terms of its Sharia-compliant bonds (sukuk) and its Islamic funds assets under management (AuM) (Deloitte 2019).
Sharia Finance’s Potential to Contribute to Women’s Financial Inclusion and Economic Empowerment

Secondary data analysis and interviews with global and Indonesia-based experts, combined with individual interviews with Indonesian women, reveal four insights into potential linkages between women’s financial inclusion, women’s economic empowerment, and women’s financial services. First, offering women a diversity of financial services and products, including both conventional and Sharia-compliant ones from commercial and social finance sectors alike (see Figure 6) will support Indonesia in meeting its ambitious financial inclusion goals. Second, research illustrates that Indonesian women seek financial services for their business and personal needs, which for most women includes the management of household finances. Third, qualitative interview data suggests an overall low level of Sharia literacy with regard to the differences between Sharia-compliant and conventional credit products; women of all religious backgrounds desire to learn more about tradeoffs among financing options for their businesses and personal needs. Finally, interview data identifies challenges experienced by Indonesian Sharia-compliant FSPs in scaling their services. These challenges include infrastructure, regulatory structures, expansion into rural areas, and financial literacy among Sharia finance users.

**Experts point out differences between Sharia finance theory and practice**

Experts foregrounded the idea that the principles behind Islamic finance hold great opportunity for advancing financial inclusion and empowerment for all people, “conforming to the Islamic ideals of cooperation, partnership, mutual help and social solidarity” (Obaidullah 2005: 155). Standard Sharia contracts form the basis from which commercial Sharia banking products are designed. Broadly, Sharia contracts may be partnership based, trade-based, lease-based, and fee-based (for a more thorough overview see Obaidullah 2005). While this research focused on commercially offered financing products, the authors recognize the potential for financial inclusion and economic empowerment outcomes for women through other pathways including microfinance and Islamic social finance instruments.12

Experts highlighted two classical Islamic contracts underlying many Sharia-compliant financing products that have the potential to increase financial inclusion and empowerment, mudarabah and musharakah. Briefly, mudarabah contracts are profit-and-risk sharing agreements in which one party offers the capital and the other party puts forward their entrepreneurship (which may include labor, ideas, management, and so forth). The investor does not participate in the business venture outside of the financial investment made. Profits are shared between the parties, but any financial losses are borne by the capital provider. Musharakah contracts are also business-focused profit-and-loss agreements, but are more of a joint partnership investment. An investor puts forward an amount for the growth of a business, and the investor and entrepreneur pre-determine profit-sharing or loss ratios. Yet in contrast to mudarabah, both parties in the musharakah are eligible to share operating responsibilities and also share losses. The two aforementioned contracts are among the most commonly discussed, but not the only, forms of commercially available Sharia-compliant financing.

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12 For more information on various forms of social finance see website of Islamic Relief Worldwide, as one overview source.
A third contract often mentioned by key informants was the murabahah contract. Murabahah agreements are often sales contracts, in which the buyer/borrower pays installments towards the ownership of a physical asset (similar to a rent-to-own agreement). In place of a fixed-rate interest, the buyer/borrower will pay a markup on the product over a deferred period of time, determined in the original contract. This latter contract could prove useful for business investments for MSMEs.

Sharia finance for women MSMEs has the potential to advance their business ventures by offering additional options to women that may align with their values, or offering a financing product with a competitive overall transaction cost. Additionally, given the prohibition of riba, or interest, more availability of Sharia-compliant financial services in Indonesia could especially improve Muslim women’s financial inclusion simply by increasing access to services more aligned with Islamic values. One expert framed it in this way:

“Islamic finance improves access. If your first filter is access, then it is empowering. The second filter, in theory, is the nature of the product. Then you have access to [financial services providers] that are more interested in investing in you, investing in your business, as opposed to lending you the money and leaving you with debt.”

Despite the theoretical differences, most experts agreed that when operationalized, many individual Sharia-compliant credit products will provide the consumer with a very similar experience to a conventional credit product. An expert on Sharia finance and women’s financial inclusion offered, “The difference between conventional and Sharia-compliant credit is very little. It is essentially changing from a percent [interest] to a fixed amount. That's it.” While the underlying principals or contract standards may differ significantly between Sharia and conventional financing on the backend of the product, often consumers note little difference in the product’s functioning.

The lack of perceived difference presents an opportunity for increased financial literacy and Sharia literacy among customers. One expert pointed out that customers concerned with cost of finance will be eager to compare fees versus interest on Sharia versus conventional finance, but it is not always straightforward. In some cases, fees charged on Sharia finance could be higher than total interest paid on a conventional loan, or vice versa (see Persona below of Fiscally Driven). Another expert identified a challenge corresponding to profit-loss-sharing principles in that the contracts are often based on trust and evaluation of risk. The expert warned that the focus on risk-sharing may be influenced by social norms, encouraging investments in entrepreneurs considered “sure bets,” or in groups of customers socio-culturally considered less risky. Theory aside, the founder of an Indonesia-based Sharia fintech told us, “Everything will return to business orientation. Either it is a conventional finance or Sharia finance.” In other words, for most commercial Sharia and conventional FSPs, profit potential drives business decisions.

Despite the challenges, most experts argued that there is a strong business case for supporting women microentrepreneurs, and for designing products with women in mind. One key informant who is a Sharia scholar and a banking executive insisted:

“[Islamic FSPs] need to take a long-term horizon of the [low-income women] segment, while at the same time keeping the cost of doing business as low as possible. Customers from this segment are loyal to an FSP and are likely to go back to the same FSP for their financing needs as their businesses grow.”

Data from customer interviews, presented below, corroborates women’s loyalty to FSPs that have gained their trust. For FSPs, a loyal customer reduces customer acquisition costs. Moreover, women often exhibit excellent
Potential for Women’s Financial Inclusion and Economic Empowerment

loan performance, reducing institutions’ credit costs. This is reflected in a 2021 decision by the Central Bank of Mexico, which noted that the provision of credit to women customers requires approximately 4% less capital in reserve for banks than for credit granted to men (Comisión Nacional Bancaria y de Valores 2021). The Sharia scholar and banking executive continued, “FSPs need a paradigm shift in their business strategy if they are to effectively meet the needs of these underserved and unserved women segments.”

Opportunities for gender focus in Sharia finance for inclusion

Experts were motivated to promote Sharia finance due to the foundations of risk- and loss-sharing and the consequent potential for financial inclusion and economic empowerment, broadly speaking. Key informant interviews did not, however, reveal strong support for a differentiated women’s financial inclusion business strategy or for gender-focused policy goals; nor did we observe a unified agreement on mechanisms to leverage Sharia finance to strengthen women’s economic empowerment in Indonesia. Rather, the emphasis remained on financial inclusion or social finance for all.

Figure 8, a figure developed for the Government of Indonesia as part of a work plan related to Sharia finance, introduces the complexity of what is meant by Sharia finance. This complexity reveals the range of financial instruments—from commercial finance to community-based finance—for a range of customers. The pyramid in the middle represents the size of financing, with corporations at the top receiving the largest loans and ultra-micro enterprises receiving the smallest. Across these financial institution types, there are a range of ecosystem factors and regulatory layers that influence how financial instruments are provided.

Figure 8: Sharia finance ecosystem in Indonesia


Social finance includes contracts explicitly designed as wealth distribution instruments for people less socioeconomically advantaged, defined in the Qur’an as eight groups of mustahiq: the poor and those in need, those unemployed or whose income is insufficient to meet family needs, recent converts to Islam, travelers, those in debt and unable to pay, enslaved persons to buy their freedom, collectors of charitable giving, or for the development of a mosque, library or educational center (Obaidullah 2008: 26). Islamic social finance is a key opportunity for achieving financial inclusion and economic empowerment more broadly, according to Islamic finance experts. Indonesia has a complex ecosystem of Sharia finance actors and channels that can partner to provide social finance (Figure 8). A Sharia banking expert in Indonesia explained how formal banking services utilize the ziswaf process to direct charitable giving to “Sadaqah (alms), zakat, and waqf that can be then distributed
by various contracts such as qardhul hasan, which [is] a loan without interest.”13 An Indonesian government official tasked with strengthening synergies between Islamic commercial and social finance systems reflected, “In Indonesia we are more serious on the Islamic social finance part [than in other areas of the world].” He saw social finance as the key venue for Sharia finance to increase financial inclusion, a perspective reflected in the Indonesia Islamic Banking Development Roadmap 2020-2025.

In addition to citing charitable instruments within Islamic social finance, experts pointed to various examples of linkages between women’s economic empowerment and Sharia microfinance programs. The experts interviewed referred to Indonesia’s “two house model” of creating microfinance programs to support MSMEs with social finance credit (Baitul Maal, or House of Charity), and then facilitating entrepreneurs’ entrance into the use of commercial financial providers (Baitul Tamwil, or House of Financing). Most discussed was Indonesia’s Baitul Maal wat Tamwil model (BMT), defined by Indonesian Sharia finance scholar Jamil Abbas as a “[cooperative] established independently by the people of the area, under the spirit of helping each other, growing together, and developing the community” (Abbas, 2015). Mentoring and training accompany financial support. Since the goal of this research is to examine Indonesian women’s use of commercial forms of Sharia and conventional finance, authors did not design the sample and research instruments to capture information on BMT or other microfinance engagements. Yet it is important to note experts’ emphasis on Sharia-compliant microfinance as a pathway to women’s economic empowerment, and point to previous scholarship on the same.14

While experts focused on the potential for social finance to increase financial inclusion and economic empowerment in general, social finance did not feature in the 24 interviews with Indonesian women. The women interviewed lived in various regions of Indonesia. On average, the women interviewed had a household income between one to two regional minimum wages (maximum of twice Upah Minimum Regional, or UMR). The women sampled could generally be considered low- to lower-middle income, so likely do not qualify to receive social finance benefits. Moreover, the research objective was to examine how women perceived differences between Sharia-compliant and conventional financing products, and how they chose to use them. As such, the findings from customer interviews narrow the consideration to financial services that are often considered commercially available.

13 Additional forms of Islamic social finance are detailed by other Sharia scholars and are beyond the bounds of this research.
14 Key informant experts pointed to creative forms of Islamic microfinance as successful models, including the P2Care and P3KUM programs in Indonesia, the Kashf Foundation in Pakistan, and Islamic finance peer-to-peer lending models investing in microentrepreneurs. For more on microfinance tied to women’s economic empowerment in Indonesia and Malaysia, see the work of other researchers, including the report “Islamic Microfinance for Women” by the Islamic Development Bank; Obaidullah & Tariqullah 2008; Al-Shami et al. 2016; Yaumidin et al. 2017; and Rahayu 2020, among others.
**Women’s use of finance to manage household and business finances**

We conducted in-depth interviews with 24 Indonesian women residing throughout the country, with each interview lasting between 50 and 90 minutes. Of those interviewed, 12 women had used Sharia-compliant products and 12 had never done so. Seventeen women identified as Muslim and seven identified as Protestant Christian or Hindu. Twenty-two women were married, and two were single and living with their parents. When the women respondents were asked if their income was the largest in the household, 18 women said their income complemented their husband’s. Only six women reported that their income was a larger ratio of the household income than that of their spouse.

Three-fourths (18) of the 24 women interviewed were the finance managers of the household, carefully ensuring that the family met its housing, food, transport, educational, and other needs given available income sources. Of those, 15 were married; one was unmarried, living with her father and brother, and providing the principal income in the household. When asked about her goals for the household, another woman said, “My hope is simple, that household needs can be fulfilled, that children’s needs are fulfilled, and that debts or loans can be paid.” Although most women in the sample reported sufficient household income to meet family needs, their budgets had little flexibility.

**Figure 9: Research participants’ livelihoods across sample**

<table>
<thead>
<tr>
<th>Online non-food sellers</th>
<th>Employees: permanent and contractual</th>
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</thead>
<tbody>
<tr>
<td>Online seller of women’s clothes and shoes</td>
<td>Civil servant</td>
</tr>
<tr>
<td>Owner of business selling clothes on credit terms</td>
<td>Food company employee</td>
</tr>
<tr>
<td>Seller of towels online</td>
<td>School administrator</td>
</tr>
<tr>
<td>Seller of bedsheets online</td>
<td>Administrative staff at car showroom</td>
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<tr>
<th>Food sellers</th>
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<tbody>
<tr>
<td>Food catering business owner</td>
</tr>
<tr>
<td>Culinary entrepreneur: Catering and selling traditional cookies and cakes</td>
</tr>
<tr>
<td>Entrepreneur selling traditional snacks</td>
</tr>
<tr>
<td>Owner of grocery shop</td>
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<tr>
<td>Entrepreneur selling cakes</td>
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<tr>
<td>Seller of frozen food online</td>
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<tr>
<th>Gig workers</th>
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<tbody>
<tr>
<td>Sales promotion girl</td>
</tr>
<tr>
<td>Student at college, part time</td>
</tr>
<tr>
<td>Caretaker for sister’s baby</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Creative industry workers</th>
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</thead>
<tbody>
<tr>
<td>Hair and makeup salon entrepreneur</td>
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Source: Authors

The women interviewed had diverse forms of income and livelihoods (Figure 9). Earning an income of their own was important for many women. Multiple women told us, “A husband’s money is wife’s money, but wife’s money supposed to be hers only.” Consequently, women often determined specific uses for their earned money. Some women discussed keeping their own earnings for their personal needs. Others earned income from their micro-businesses and invested it back into the business. Women often set aside a small amount for their own spending or savings. One woman in Banda sold clothing from her home. When asked how she uses her spending, she replied, “I work continuously, I keep the money, whatever the money is left, saved. It might be only IDR 20 thousand or IDR 30 thousand ($1-2 USD). I keep it saved [for my children’s educational expenses].”

Interviews revealed that multiple women started or increased activity in their own businesses during the pandemic, in response to their husbands’ income losses. One Aceh woman increased production in her food catering business when her husband’s income became inconsistent. “I save every cent,” she stated, as her family’s finances
were difficult. Many other interviews reflected how women's incomes were crucial to household financial prosperity and security. A second Aceh woman explained a dynamic seen in other families:

“[I use my income] to help the family economy, when the money from the husband is less, for example buying children's snacks, or side dishes. I save this money. When my husband works, it's my husband's money I use to shop for necessities. When the husband does not work, I take some of the money I collect for the child's allowance or other household needs.”

Across the sample, women carefully balanced household incomes and astutely assigned their own income to their personal as well as family needs. In order to advance their own business and family requirements, women frequently make use of multiple financial services and products.

**Women's reliance on credit and savings to manage business and personal needs**

Women in the sample managed various financial products and services for their households and businesses. In addition to carefully budgeting for groceries, children's schooling, support for parents, and transport and lunches for themselves or a spouse working outside the home, women also balanced insurance accounts, contributed to savings accounts, applied for loans, and demonstrated strong loan repayment performance.

When asked what financial product was most important in women's lives, 11 of 19 women identified a credit product as being the most essential to them. Women accessed credit through both formal and informal institutions including Sharia and conventional pawn shops, banks, cooperatives, arisan informal savings groups, and some fintech finance providers. Women relied on trusted institutions for credit to start up or expand their businesses, provide working capital for entrepreneurial endeavors, cover unexpected health costs for family members, or provide finance for other business or family needs. When their parents were hospitalized, two women took out their first loans in order to cover medical expenses. Many others accessed credit to build their businesses or cover expenses during financially stressful times. “I used the loan for working capital as the pandemic hit us seriously,” said one Surabaya entrepreneur who sold cookies from her home. She added, “I had to find a source of funding quickly.”

Another pastry chef entrepreneur in rural Sungai Liat recounted her positive experience with a collateral-free microfinance loan: “I accepted the loan offer to fund my business after having previous negative borrowing experience. I had since only borrowed from my parents.” The women noted the value of collateral-free, low-fee loans used to bolster their business offerings.

Women frequently relied on family and friends for small loans for urgent needs. Five women noted informal savings groups or arisan as reliable places to access credit, and said they also borrowed from family and friends. The relationship built on trust and mutual support felt safe for women and also pushed women to return the loan quickly. A woman in Surabaya explained:

“Trust is number one, so I usually borrow money from my relatives. For example, if I get a lot of orders [in my business], filling the orders also requires a lot of capital. So I borrow money from my relatives. Now I have a friend who is like a relative, so sometimes I borrow her money.” She insisted, “But it also doesn’t take long time to pay off my loan. Sometimes I say, ‘I will pay it in a month,’ but sometimes in a week I’ve paid it off.”

The sense of solidarity and support from family and friends encouraged women in times when they urgently needed funds.

Feelings of trust also marked women's experiences with loans from FSPs. Word of mouth and positive experiences of women with loan providers were drivers of women's selection of FSPs. Eleven women noted they had applied for a loan because, or would apply for a loan if, a trusted friend or family member recommended a financial institution. Three women in particular expressed loyalty to the institutions that had provided their loans, noting they would not consider other options. A woman in urban Denpasar said:

“It seems I'll keep borrowing money from this provider only. Because it's comfortable. I'm the kind of person who doesn't like to move on easily. If I feel comfortable here and I think the interest rate is appropriate—not too high, the service is also good—I will continue to loan money in the same place.”
In addition to credit, women cited their savings and checking accounts as essential for money management. Women utilized accounts for a variety of reasons, including for business and household finances. For business purposes, women noted that accounts enabled efficient business management, allowing them to receive transfers or payments from customers. Other women had opened an account and then later applied for a loan from the same institution, making repayments easier since they could link their account. As one woman explained, “I took out a loan at the same institution where I have my checking and savings accounts. It works well for me. For example, once I had not prepared in advance a loan repayment, so it was taken directly from my account.” Another noted, “I only save in my bank account. It feels safer than at home.” She added, laughing, “Some people say there are mythical creatures, such as Tuyul, that steal your money if you save at home.” Although the woman’s comments were made with humor, research participants said they relied on savings accounts to protect their funds from quick liquidity, while allowing them to be able to withdraw their money through a relatively simple process when needed. Women appreciated having formal accounts in trusted institutions for budgeting and saving money.

Fifteen of the 24 women interviewed saved their money in jewelry, and relied on that method for handling unexpected costs or investing in business needs. While a number of those women valued savings accounts, some noted that selling or mortgaging jewelry required more effort than withdrawing from a bank account, and explained that they relied on this barrier. That additional step enabled them to protect their funds against a potentially spontaneous use for non-emergency costs, or for reasons not included in their long-term savings goals. “I prefer to invest and save money in gold and jewelry,” said a woman living in rural Kabupaten Bangka Tengah. “During an emergency situation, I can sell it. If I save it on my savings account, I can withdraw it or spend it on the online shopping spree without even realizing it.” For women across various regions in Indonesia, jewelry provided security for emergencies and assets, against which they could take out credit to invest in their businesses or cover unexpected expenses.

Overall, the women research participants diversified their financial management, using bank accounts—primarily savings accounts—as well as credit products and other services including health insurance accounts.
Personas of Indonesian Women using Conventional and Sharia Finance

Across Indonesia, low-income women are motivated to take up financial products and services for different reasons, including but not limited to alignment with faith or values. A variety of factors including financial needs, management capability, financial and social norms, access points, and cost-saving goals can influence a woman’s knowledge of or preference for Islamic or conventional banking, as well as her ability to choose one or the other. This section explores women customers’ perceived barriers and access points to Sharia finance, and identifies market opportunities for future engagement by looking at four personas.

As part of our analysis, we mapped women customers within Indonesia’s banking industry across three main dimensions: 1) use of Sharia finance, 2) knowledge of Sharia versus conventional financial products and services, and 3) importance of Sharia compliance as a determining factor in the selection of financial services. Using these criteria, we saw four personas emerge: Loyal Sharia Finance Users, Preferred Sharia Finance Users, Fiscally Driven Sharia Finance Users, and Conventional Accustomed Users. Each of the identified personas demonstrates unique behaviors related to financial knowledge, access, and adoption of Islamic and conventional financial services. For Sharia finance to appeal to women customers in Indonesia, Sharia-compliant products and services must be designed with each of these four personas in mind.

**Loyal Sharia Finance Users**

Loyal Sharia Finance Users see Sharia finance as a requirement for financial product or service adoption, and thus exclusively choose Sharia-marketed products or services. These women tend to follow traditional Islamic standards to navigate everyday life, and often receive direction on financial health from their close social networks. One loyal Sharia customer stated, “Sharia is more credible, not complicated. That’s the reason I use Sharia products. When I use Sharia-compliant products I feel relieved, calm, comfortable.”

**Key attributes:**

- **Motivation for take-up of financial product or service:** Seeks products and services that are aligned with Islam, Fatwa, or religious leader’s recommendation. Feels more at ease with products without *riba*, or interest.

- **Essential personal requirements for use:** Requires a product or service to clearly state that it is Sharia-compliant in order to adopt it, and may not adopt it if answer is unclear.

Due to their commitment to Sharia finance, Loyal Sharia Finance Users are a ready market for deeper Islamic banking engagement. There are multiple avenues through which to increase this segment’s engagement. First, Sharia-compliant products and services must be clearly labeled and marketed. Doing so will decrease customer uncertainty and increase customer take-up. One woman customer cited that Sharia certification supports her confidence in a specific financial service, saying:

“Sharia finance means it’s guaranteed that it aligns with my religion…the Sharia-compliant certification shows that it’s approved by ulema [Sharia scholars]. If I may say, the interest doesn’t mencekik leher [cost an arm and a leg]. We feel proud and also relieved because we consume [the] halal thing.”
Second, Sharia-compliant products and services must be located near this customer segment. Access to nearby bank branches or agent-sharing options provide women customers with greater opportunity to engage with customer support and utilize services.

**Preferred Sharia Finance Users**

Unlike Loyal Sharia Finance Users, Preferred Sharia Finance Users may first compare overall transaction costs between conventional and Islamic banking, and tend to prefer Sharia-compliant products if all other costs are equal. In other words, while these women seek to follow Sharia guidelines, they may choose a conventional product if it provides greater cost-savings. One woman customer stated, “If I’m at a bank and offered a Sharia and conventional product, and the rates are the same, if the process in Islamic banks is easy and not difficult I choose Islamic banks.” This segment may have multiple accounts for managing income and expenses, and prefers to choose the financial products that offer the most halal use cases to conduct daily transactions.

**Key attributes:**

- **Motivation for take-up of financial product or service:** Often identifies as Muslim, and seeks a financial product that has the lowest transaction fees or overall use fees and that meets other needs such as proximity to daily activities, among others. Sharia compliance is an additional positive factor, but not necessarily the most important. Consults with trusted family and friends about recommended financial services.

- **Essential personal requirements for use:** Requires contact points who can explain how a product or service meets Sharia-compliant practices in order to resolve her concerns regarding multiple, competing interpretations of Sharia compliance.

For Preferred Sharia Finance Users, nearby access points, accessible information on Sharia compliance, and competitive cost-savings rates provide the three greatest opportunities to increase this segment’s use of Islamic banking. While these women prefer Sharia-compliant banking, they do not always have the information necessary to choose Sharia-compliant products and services. Thus, supplying and training bank agents with expert and transparent information can support this segment’s adoption of Islamic products and services.

**Fiscally Driven Sharia Finance Users**

Fiscally Driven Sharia Finance Users have high digital financial capability and seek the products and services that will provide the best cost-savings for themselves and their families. These women are less motivated by religious convictions, instead prioritizing cost-savings goals in their take-up of Sharia finance. When choosing between Islamic and conventional banking, they pursue the tools and services that offer the greatest repayment installment tenure, lowest fixed-rates, and highest cost-savings. A Hindu Bali customer of Sharia finance expressed that she reviewed all her options for a loan and found that the Sharia option worked better for her. “The only difference was that the conventional product asked for collateral, while the Sharia loan had no *riba* and no collateral. So I preferred and chose the Sharia-compliant one. That's the only reason.”

**Key attributes:**

- **Motivation for take-up of financial product or service:** May identify as Muslim or non-Muslim, so use of financial services is not led by a specific religious conviction. Seeks most cost-effective financial product for business or personal need, considering additional factors including proximity, trust in institution, and familiarity with product.

- **Essential personal requirements for use:** Requires proximal access points that provide effective customer service, and relies on information to clarify the best financial options available.
Personas of Indonesian Women

For Fiscally Driven Sharia Finance Users to take up Sharia finance, they must see that they are making the wisest financial decision for themselves and their families. Thus, clear information about both conventional and Sharia-compliant financial tools is paramount. To increase this segment’s adoption of Sharia finance, it will be necessary to provide customer support and access to clear information.15

**Conventional-Accustomed Users**

Conventional-Accustomed Users primarily utilize conventional products and services out of habit and convenience. They are loyal to neither conventional nor Islamic banking practices, but rather make financial decisions according to what is most familiar and accessible to them. This segment appreciates accessible customer access points and efficient banking services. One Conventional-Accustomed User communicated that she would be interested in Sharia finance, if given more information: “I’m not very familiar with Sharia finance but I’m very interested. None of my friends have joined Sharia banks, so we don’t know about Sharia finance. I saw [a Sharia advertisement] on the street, but I haven’t learned about it yet. I don’t need [a loan] yet. Maybe later when my business has grown and developed, I can be confident.”

Another woman reported that she had heard positive reviews of Sharia financial services but did not have the time to learn more about Sharia-compliant options. When asked about her perceived differences between Sharia-compliant and conventional services, and then whether she would use Sharia-compliant services in the future, she responded: “Perhaps the difference is that Sharia banks aim to ease the burden on customers, because if too much bank interest is charged to customers, it is tantamount to usury. ...For money management in Islamic banks, I don't really understand....Since I have a loan already in [a conventional bank], I don't really have much time to understand the system of Sharia banks for savings, loans or other [services].”

**Key attributes:**

- **Motivation for take-up of financial product or service:** Utilizes the products and services that are most convenient for her daily financial transactions or goals. May be Muslim or non-Muslim. Religious values have never featured in her financial services decisions.

- **Essential personal requirements for use:** Has a limited understanding or knowledge of Islamic finance, though has a strong digital financial capability and is largely knowledgeable about general banking terminology.

While open to Sharia-compliant tools and services, this segment listed lack of knowledge about Islamic banking as a main deterrent for take-up. To engage this segment of customers, Sharia-compliant services and products must be marketed towards Muslim and non-Muslim audiences, with mindfulness of how terminology and language may impact customers. Additionally, customers from this segment require more learning opportunities to engage with Sharia finance. To this end, banking agents must initiate conversations to ensure that Sharia-compliant options are presented and explained. Our research did not reveal any Loyal Conventional Users, which means that all Conventional-Accustomed Users may be open to exploring all financial options. These personas reveal opportunities for FSPs to better market to, design for, and serve women customers.

15 Kustin (2015) had similar findings about this persona: “The women freely acknowledged interest as the downside of their transactions, both because of the extra cost and because they knew it was forbidden in Islam. However, the harm of engaging with interest was neutralized by financial need and the advantages of the bond when compared to options for safekeeping, quick access to liquidity, and a flexible repayment schedule” (17). Although women value the aspect of a product being Sharia-compliant, they are also weighing other factors when selecting a financial service.
Challenges Facing Sharia Finance Providers in Indonesia

Experts in banking, fintech, and peer-to-peer lending were energized by the Indonesian government’s focus on Sharia-compliant financial services and the market potential in the country. Amid the growth possibilities, experts identified four challenges facing Sharia finance in Indonesia.

1. **Relative newness of the market as reflected in its limited regulatory structures**

Although some experts opined that Indonesia’s Sharia finance ecosystem is strong due to its “grassroots” energy among startups and microfinance cooperatives, others stressed the need to move from a “bottom-up approach focused on market development to a top-down approach in which emphasis shifts to alignments and regulations of the government” (Expert interview, founder of peer-to-peer lending licensed company, 2021). One Sharia finance expert insisted:

“Sharia-compliant products have worked in Pakistan. It’s a vibrant market because the state bank was very proactive. They have the regulatory space and prudential regulations for Sharia-compliant products. If you brand yourself as a Sharia-compliant entity, then there are mandatory compliance checks and reviews.”

Experts also indicated Malaysia as an exemplary country in Sharia finance, as its Central Bank has supervised and regulated Islamic banks since the 1983 Islamic Banking Act (IBA), with current regulations defined under the Islamic Financial Services Act of 2013. The IBA enabled standardization of loan transaction processes for both Sharia and conventional products. Since then, the government has offered incentives for the growth of Islamic financial institutions. Presently, Indonesia’s 2008 Law no. 21 regulates Sharia finance, and the Central Bank has supported the country’s dual banking system. “Regulations make us better,” the founder of a peer-to-peer lending fintech insisted. Finance professionals and entrepreneurs in Indonesia anticipate further regulations to strengthen their licensing and operating processes.

2. **Infrastructure challenges within banks despite dual banking system**

Two Indonesian Sharia finance professionals identified opportunities for growth in Sharia finance infrastructure in banks, specifically in information technology (IT) and other finance processing mechanisms. An official at BTN Syariah looked to the government to facilitate infrastructure improvements:

“Sharia finance is relatively new. The government launched the grand design of Syariah banking system, so if we want to develop the system it must be based on the government plan. We are not allowed to follow the system of the conventional bank, and therefore our IT system [is facing difficulties] and is in the process of becoming more sophisticated.”

Given the distinct theoretical underpinnings of Sharia finance products and contracts, banking systems must create new processing mechanisms. A second Indonesian banking expert said, “The biggest challenge is that the infrastructure and the platform used by the Sharia could be better and faster so that they can be more efficient and can compete with the conventional financial industries. That is from the supplier or provider point of view.” This expert’s words underpin the argument made by some that Sharia financial services providers may need to charge higher prices to overcome infrastructural challenge that result in inefficiencies and high cost of products and
services. The key informants were hopeful for additional support from FSPs, and for government efforts that can strengthen the functioning of Sharia financial services.

3. Financial capability to access and use Sharia-compliant products

As reflected in the personas, there remain great opportunities for FSPs and other organizations to provide customer segments with financial literacy in the various Sharia-compliant loan contracts and other financial services and products. This opportunity comes given the challenge of low financial literacy and poor financial capability identified by providers. One company reflected on its responsibility to engage potential customers around the values underpinning Sharia-compliant financial offerings:

“Our challenges are both in strengthening our support of customer literacy of Sharia finance as well as improving our internal expansion in Sharia-compliant product offerings. Customers approach us because friends tell them, ‘In Sharia, the calculation is easier and more transparent and all the cost and obligation is clear from the beginning.’ We can help customers have more knowledge about these elements.”

While government initiatives are similarly cognizant of the need to facilitate financial literacy, the Indonesia Islamic Economic Masterplan 2019-2024 directs efforts to educational programs specializing in Islamic economics in order to foment the professional and research spheres of Islamic finance. For example, the National Islamic Finance Committee (KNEKS) coordinated Islamic economics as a new program of study in five universities. With increased energy invested in literacy campaigns, there are also tremendous opportunities for financial literacy programs tailored not only for formal educational environments but also for day-to-day users of formal financial services. Our customer research supports this recommendation, as many customers were unaware of Sharia financial products but open to learning from trusted finance professionals.

4. Limited geographic reach into peri-urban and rural areas

In the Indonesian Financial Services Sector Master Plan for 2021-2025 and elsewhere, authorities acknowledge the need to create financial infrastructure and services for populations outside of the Bali and Jakarta population centers in order to reach financial inclusion targets. Despite a recent narrowing of Indonesia’s rural-urban gap in financial inclusion, with account ownership increasing from 24.7% in 2016 to 48.9% in 2018, disparities in options for and access to financial services in more remote areas remain a challenge for Sharia and conventional providers alike (Asian Development Bank 2018).

When asked to identify a challenge facing Sharia finance in Indonesia, a founder of a financial fintech responded:

“The main problem is the equality factor, because so far, we have only focused on the Java-Bali area. These areas usually have unique demographics, people with a high socio-economic level, and education and economic literacy levels that are better than in other regions. I want to replicate and implement in rural areas the successful financial products that exist in Java and Bali.”

A Malaysian Sharia scholar echoed the opportunities for digital financial services to bridge the financial inclusion gap in more remote areas. Acknowledging the costs of setting up a bank branch, the scholar suggested:

“The Government of Indonesia should adopt technological capacity. It seems, especially the young, the population of Indonesia is very tech savvy and they have so many startup initiatives like the E-Wallet and
mobile payment, so they are quite advanced in this sense. Conventional fintech or Islamic fintech can somehow help most of the low- and middle-income population be part of the financial system.”

Indonesian Islamic economists and finance entrepreneurs offered diverse ideas and concerns regarding the most successful ways to reach rural residents. Fintech providers admitted they were focused exclusively on urban populations, and expressed doubts about the best way to expand service to rural areas without losing profits. One fintech expert said, “We are a profit-oriented institution. We don’t dare try to find our own method [to reach rural populations] that consumes our funds. However, if KNEKS or another agency provides a proven, detailed method, we could just apply and use that method.” This response also represented the concerns of other FSPs within the sample: that investments in geographic expansion would be too risky.

Other banking professionals and economists expressed additional ideas in their interviews. One banking expert pointed to the success of village-level units of Bank Rakyat Indonesia. An official in KNEKS agreed that local FSPs would be the most successful; however, in contrast to basing expansion in established commercial banks, the official envisioned community-based Sharia finance savings or credit groups, similar to the BMT model. “In the Islamic finance ecosystem, we are not just talking about Islamic banks [but also] about Islamic microfinance. We have thousands of Islamic microfinance institutions, and they’re the players that we [the government] hopes can serve [unbanked populations].” How to provide useful financial services to rural residents, and more specifically to rural women, is a challenge confronting government agencies, FSPs, digital financial services, and fintech companies alike.
Recommendations: Back to Basics

A synthesis of 16 interviews with key informant experts in Sharia finance, 24 in-depth interviews with Indonesian women customers of financial services, and secondary analysis of financial sector data indicate that Sharia financial services are one of a variety of tools Indonesia uses in meeting its ambitious financial inclusion goals, including for women. The core social principles of Sharia finance, moreover, open up possibilities for the strengthening of economic empowerment for low- to middle-income finance customers, including women.

Nevertheless, Sharia finance, just like conventional finance, is not meeting its full potential for women’s financial inclusion and economic empowerment. To successfully achieve increases in women's use of Sharia finance products, and in women’s financial inclusion and economic empowerment, we recommend a return to basics for Indonesian policymakers and financial services providers.

Recommendation: Design for women’s unique needs

Women’s World Banking firmly believes that if providers are not designing products with gender in mind, the products will default to addressing men’s needs, given the prevailing mental models of banking customers. Women have unique product design, marketing, and customer service preferences and practices, including for Sharia-compliant products. Furthermore, regardless of religious identity, women want to know all of their options when selecting a financial service, and are open to learning about new products.

Recommendation: Establish clear policy goals for women’s inclusion

The principles behind Sharia finance hold great potential to advance financial inclusion and empowerment for all people when effectively integrated into national financial inclusion strategies. In 2021, the Government of Indonesia established a women's financial inclusion strategy which lacked a clear focus on how Sharia finance might contribute to women’s financial inclusion.

The Government of Indonesia, specifically the Ministry of Finance, can proactively establish clear gender-focused policy goals to assist Sharia finance in supporting women’s financial inclusion. Such policy goals could focus specifically on regions or communities in which Sharia finance represents the majority of financial products and transactions. Further, these goals could involve requirements for business strategies aimed at women’s financial inclusion and differentiated among private sector actors; the requirements could also be directed towards strengthening Sharia financial literacy among women customers. Beyond goal-setting, the Government of Indonesia can clearly track progress towards meeting these goals, and can supervise the industry in working together to deliver them.

Recommendation: Chart and pursue pathways to women’s economic empowerment

The goals and principles of Sharia finance are consistent with those of economic empowerment. Both seek to improve the lives of individuals and communities through finance. Nevertheless, in looking at individual financial institutions, there are limited examples of how these goals and principles translate into meaningful and large-scale women's economic empowerment.

Sharia finance has a unique role to play in women’s economic empowerment, and in charting out a theory of change by which access to finance can lead to a woman’s improved financial position, decision-making ability, perceptions of herself, and relationships. Sharia finance can emphasize this value proposition to women customers as part of its engagement with them through products and channels. We offer a generic theory of change in Figure 10 below.
The challenges related to Sharia finance are based not in its underlying principles and goals, but rather in its effectiveness in leveraging its potential for the benefit of women’s financial inclusion and economic empowerment. Sharia finance provides a promising, yet still unrealized, avenue towards increasing women’s financial inclusion in Indonesia. In coming years, we look forward to seeing the ways in which Sharia finance uses a gender lens to improve the lives of women in Indonesia—and around the world.
References


