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THE ROLE OF ISLAMIC FINANCE IN IMPROVING FINANCIAL INCLUSION AMONG THE LOWER-MIDDLE CLASS IN EAST LAMPUNG

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Abstract

Many low-income communities still lack access to formal financial services, even though financial inclusion is a key component in driving inclusive and equitable economic growth. In a predominantly Muslim society, Islamic finance offers a potential alternative because it operates based on the principles of fairness, transparency, and the prohibition of usury, which align with the community's religious values. This study aims to analyze the role of Islamic finance in increasing financial inclusion among lower-middle-class communities in East Lampung Regency. This study used a qualitative approach with descriptive methods, obtaining data through in-depth interviews, observations, and documentation studies with lower-middle-class communities and managers of Islamic financial institutions in East Lampung. The results indicate that Islamic finance plays a significant role in expanding public access to financial services through institutions such as Baitul Maal wat Tamwil (BMT) and Islamic cooperatives, which provide savings products, microfinance, and productive zakat and infaq programs. However, further efforts are needed to improve financial literacy, strengthen the infrastructure of Islamic financial institutions, and digitize Islamic financial services so that its benefits can be felt more widely and equitably.

Keywords: *Islamic finance, financial inclusion, lower middle class.*

A. INTRODUCTION

One of the most important pillars supporting equitable and sustainable economic growth is financial inclusion. People can save, obtain financing, and manage risk when they have access to formal financial services, ultimately improving the economic health of the community. One initiative aimed at improving financial access in Indonesia, which can address various causes of low financial literacy, is financial inclusion (Ramadhan, 2021). The essence of financial exclusion is financial inclusion. Because exclusionary economic practices have exacerbated unemployment and poverty, new innovations are needed to achieve an inclusive economic life. Social justice and economic democratization are realized through financial inclusion (Rizal et al., 2025). In reality, the goal of an inclusive financial services system is to create a financial environment that benefits the poor and low-income communities (Ainolyaqin, 2024). In Indonesia, the issue of financial inclusion has been a strategic agenda for the government since the launch of the National Strategy for Financial Inclusion (SNKI) by Bank Indonesia in 2016. However, despite significant increases in the national financial inclusion rate, data shows that Sharia-based financial inclusion still lags behind conventional financial inclusion (Safitri & Putri, 2025). Access to adequate financial services not only serves as a tool to improve individual welfare but also as a catalyst for a country's economic growth. However, in reality, the majority of low-income communities in Indonesia still face various barriers to accessing formal financial services, such as limited collateral, lack of financial literacy, and the incompatibility of conventional financial products with their needs and values (Ekonomi et al., 2025). The goal is to increase financial inclusion in Indonesia so that people can utilize available financial services more actively and effectively. The rapid development of financial markets, increasingly sophisticated financial technology, and Indonesia's annual population growth all reinforce this. In an effort to achieve the goal of financial inclusion, the implementation of Presidential Regulation Number 114 of 2020 concerning the National Strategy for Financial Inclusion (SNKI) encourages increased integrity of economic activities and inclusive finance through digital financial services. Access to various financial institutions, goods, and services that meet the needs and capacities of the community in order to improve community welfare is known as financial inclusion. In addition to contributing positively to economic growth and improving community welfare, which ultimately leads to reduced poverty levels, financial inclusion is crucial for increasing economic efficiency and supporting financial system stability (Herawati et al., 2024).

There is a significant gap in access to financial services, particularly among the lower-middle class. Various factors hinder financial inclusion, ranging from limited financial literacy, minimal trust in conventional financial institutions, to the inconsistency of financial products with community values and needs. In this context, Islamic finance presents a potential alternative to reach underserved segments of society, especially those who prefer a financial system that aligns with Sharia principles. Islamic finance offers an approach based on fairness, transparency, and prohibitions against riba (interest) and excessive speculation (gharar). These values are considered more aligned with the beliefs of the majority of Muslims and have the potential to provide a solution for those reluctant or unable to access conventional financial services. Products such as Islamic microfinance, Baitul Maal wat Tamwil (BMT), and zakat, infaq, and sedekah institutions also serve as instruments that support the economic empowerment of low-income communities. Although Islamic finance has shown quite rapid development in recent decades, a major question that remains relevant to study is the extent to which Islamic finance is truly capable of increasing financial inclusion, particularly among the lower-middle class. Is the presence of Islamic finance able to address the structural and cultural challenges that hinder access to financial services? How effective are Islamic financial instruments in reaching this segment of society? Based on this background, this study aims to analyze the role of Islamic finance in increasing financial inclusion among the lower-middle class and identify the opportunities and challenges faced in its implementation.

B. LITERATURE REVIEW

Financial Inclusion

Fisher's book, "The Purchasing Power of Money" (1911), asserted that the velocity of money circulation, rather than just its quantity (Money Supply), is the most important element in increasing a country's economic output. Based on this argument, the capacity of a country's financial system to circulate more quickly and widely is as important to achieving quality economic growth as the central bank's ability to issue money, which is clearly limited (Ningsih et al., 2025). Financial inclusion is a condition in which every individual or group of people has adequate access to formal financial services, such as savings, financing, insurance, and payment systems. Financial inclusion is defined as an effort to reach the unbanked population so they can actively participate in economic activities. In the context of Islamic economics, financial inclusion is not only assessed in terms of access, but also from the suitability of financial services with Islamic values and the real needs of society (Ekonomi et al., 2025). Financial inclusion is used to assess whether individuals and communities, from the bottom up, have been provided with the means to meet their financial service needs, starting from the beginning of formal financial programs. This means that when individuals use financial services in accordance with applicable regulations, each individual receives fair rights so that they can use financial services. Financial inclusion reflects the condition of individuals when they can obtain their rights to useful financial services, at low prices, with convenient usage methods, and with dignity for customers (Azizurrahman et al., 2024). Understanding the concept of financial inclusion and the importance of ensuring that all segments of society have equal opportunities to use financial services equally. Reviewing the literature on financial inclusion indicators, strategies to increase access, and the impact of financial inclusion on economic growth and welfare. (Safii, 2024).

Islamic Finance Concept

The terms "Islam" and "finance" constitute Islamic finance. Financial markets and organizations that handle credit risk and distribute money are called finance. Therefore, the foundations of Islamic finance should be at least comparable to other forms of financing. However, because Islam is the source of financial principles and values, the term "Islamic" indicates several important differences between Islamic banking and other financial organizations. (II, 2020). The Sharia principles that govern the operations and products of financial organizations are closely related to the Islamic financial processes they implement. The following are some concepts of Islamic finance: (Darwis, 1981).

1. The Concept of Buying and Selling (*al-Bai'*)

Al-bai' is a mutual exchange and acceptance. Hasbi Ash-Shiddieqy further explained that there is a continuous exchange of property rights because buying and selling is based on a strong agreement that exchanges property for property. Therefore, buying and selling refers to a voluntary agreement between two parties to exchange valuables under conditions permitted by Sharia. It means "exchange something for something" in linguistics. According to Taqiyuddin, buying and selling can be done (tasharruf) with willingness and in a manner that is in accordance with Sharia law.

2. The Concept of Syirkah

The word "*syirkah"* (*company*) comes from the word al-ikhtilath, which means "mixture" or "blending." Idris Ahmad's terminology states that syirkah is equivalent to a trading business, consisting of two or more people who agree to cooperate in trade by contributing their own money, with profits and losses determined based on the amount of capital each party contributes. Sharia, on the other hand, defines syirkah as a business arrangement in which two or more people agree to conduct financial transactions to generate income. Therefore, a syirkah, or firm, is essentially a partnership between two or more people in a business where profits and losses are shared.

3. The Concept of Mudharabah (*Profit Sharing)*

The Concept of Mudharabah/Qiradh (Profit Sharing) The term al-dharb, which literally means "walking" or "traveling," is the root of the word mudharabah (Quran 73:20). Furthermore, because the owner deducts a portion of his assets for trading and receives a portion of the profits, this concept is also known as qiradh, which comes from the term qardhu, which means al-qathu (cutting). Mudharabah or qiradh muamalah are other names for this concept.

4. The Concept of Ariyah (Loan)

The word "ariyah" in linguistics means loan. Shafi'i scholars define "ariyah" as the ability to utilize someone who has given up something useful, while maintaining the integrity of the ownership of the item so that it can be returned to its owner.

C. METHODOLOGY OF RESEARCH

This study uses a qualitative approach and descriptive methods to analyze the role of Islamic finance in increasing financial inclusion among lower-middle-class communities (Anto et al., 2024). Qualitative research involves collecting and interpreting data without using numbers. Research conducted in natural settings is often referred to as qualitative research methods, also called naturalistic research methods (Nurrisa et al., 2025). This research uses primary data sources. Primary data refers to information collected directly from respondents through questionnaires. Direct and indirect interviews, observations, focus groups, and questionnaires can be used to obtain primary data. Researchers must obtain primary data directly (Murjani, 2022).

The population encompasses the entire research object and meets certain characteristics (Murjani, 2022). The term research population refers to all units of analysis that share similar characteristics or have a significant relationship with the research problem. To ensure that the group is accurately represented in the research, it is important to understand the levels and attributes of a population (Candra Susanto et al., 2024). The research population is the lower-middle class targeted by Sharia-based financial services (Islamic finance). While the sample was selected purposively, namely the lower-middle class targeted by Sharia-based financial services (Islamic finance), both those who have used and those who have not used Sharia financial products and services. The research sample was selected from the lower-middle class because this group is the primary target of financial inclusion programs. They are considered most relevant to illustrate the extent to which Islamic finance plays a role in expanding financial access, given that levels of financial literacy and access in this group are still relatively low. Furthermore, involving respondents who have and have not used Sharia financial services allows researchers to compare the level of utilization and barriers faced in accessing Islamic finance.

The data collection techniques used in this study included in-depth interviews with lower-middle class communities, direct observation of environmental dynamics, and analysis of related documents, such as activity reports and internal policies. Interviews were conducted to gather information from customers of Islamic financial institutions regarding their roles, constraints, and strategies. Data analysis techniques in this study identified patterns in the data obtained from the interviews. Interviews serve as a method of data collection through communication, specifically dialogue between two parties: the interviewer asking questions and the interviewee providing responses. Interviews can be conducted in structured or unstructured ways, both directly and indirectly. Interviews aim to obtain information that cannot be observed or obtained through other means (Anto et al., 2024).

D. RESULT AND DISCUSSION

LOCATION OVERVIEW

This research was conducted in East Lampung, a region in Lampung Province with a predominantly Muslim population and a relatively high level of lower-middle-class economic activity. Most residents work in agriculture, small trade, and informal services. Despite the region's significant economic potential, access to formal financial services, particularly Islamic financial institutions, remains relatively low. Interviews with several residents and Islamic financial institution managers revealed that most residents do not fully understand the benefits of Islamic financial products and still consider the process more complicated than conventional institutions. The research indicates that the presence of Islamic finance in East Lampung has had a positive impact on expanding financial access for the lower-middle class.

This is in line with the view (Ainolyaqin, 2024) which states that the Islamic financial system has an inclusive character because it is oriented towards social justice and economic equality. BMT and Islamic cooperatives in East Lampung are real examples of financial institutions that act as financial intermediaries as well as social intermediaries, namely not only distributing financing, but also providing guidance to small businesses. Although Islamic finance has great potential in increasing financial inclusion, this study found several obstacles, namely low Islamic financial literacy and public understanding of the concept of Islamic products, a minimal network of Islamic financial institutions in rural areas, lack of digital technology support and infrastructure of Islamic financial institutions, the perception that the costs and requirements of Islamic financing are relatively high. Based on the findings of the study conducted through survey methods and interviews with people in the lower middle class in East Lampung, several main results were found that can be concluded;

Level of Understanding and Literacy of Sharia Finance

Interview results indicate that the level of Sharia financial literacy among lower-middle class communities in East Lampung remains relatively low. Most respondents are aware of the existence of Sharia banks and BMTs, but do not yet fully understand basic principles such as profit-sharing (*mudharabah*), sale and purchase contracts (*murabahah*), and the prohibition of usury (*riba*). Despite this, the community has high trust in Sharia-based institutions, primarily because they are perceived as more in line with religious teachings and fairer than conventional financial institutions. Many consider the Sharia system less burdensome because it does not charge interest, but rather a more transparent profit-sharing system.

Public Access to Sharia Financial Services

Some residents of East Lampung have begun accessing Sharia financial services, primarily through Baitul Maal wat Tamwil (BMT) and Sharia cooperatives at the sub-district level. The most widely utilized products are Sharia savings and microfinance for small businesses, agriculture, and trade. However, several obstacles remain that contribute to low Sharia financial inclusion, including: a lack of public awareness of Sharia financial institutions regarding products and their benefits, the distance of Sharia financial institutions from rural communities, administrative procedures perceived as complicated by the lower classes, and low digital skills and financial literacy regarding technology-based financial services (*Sharia fintech*).

The Role of Islamic Finance in Increasing Financial Inclusion

Interviews with managers of Islamic financial institutions revealed that Islamic finance plays a crucial role in opening financial access for low-income communities. Through microfinance products, savings, and productive zakat and alms programs, Islamic finance directly contributes to increasing community economic activity. This role can be explained in three ways: Economic Role: Islamic financial institutions help communities obtain business capital without being entangled in usury, thereby increasing economic productivity and well-being; Educational Role: Islamic financial literacy programs conducted by BMTs and Islamic banks increase public understanding of sharia principles in economics;

and Social Role: Islamic financial institutions often play a role in social activities such as distributing zakat and productive alms, which helps poor communities start small businesses. Islamic finance not only provides financial services but also serves as an instrument for economic empowerment in East Lampung.

E. CONCLUSION

Based on the above research, it can be concluded that the role of Islamic finance in increasing financial inclusion among the lower middle class community, Islamic finance plays a significant role in expanding public access to financial services through institutions such as Baitul Maal wat Tamwil (BMT) and Islamic cooperatives, which provide savings products, microfinance, and productive zakat and infaq programs, although further efforts are needed to increase financial literacy, strengthen the infrastructure of Islamic financial institutions, and digitize Islamic financial services so that the benefits can be felt more widely and evenly**.**

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