

## Documents

Saifurrahman, A., Kassim, S.H.

**Regulatory issues inhibiting the financial inclusion: a case study among Islamic banks and MSMEs in Indonesia** (2023) *Qualitative Research in Financial Markets*, .

DOI: 10.1108/QRFM-05-2022-0086

Institute of Islamic Banking and Finance, International Islamic University Malaysia, Kuala Lumpur, Malaysia

#### Abstract

**Purpose:** The primary objective of this study aims to intensively explore the environment of Indonesian regulations and laws related to the Islamic banking system and micro-, small- and medium-sized enterprises (MSME) and unveil the restrictive laws and regulatory flaws that potentially hinder the Islamic banking institution and MSME industry in achieving financial inclusion and promoting sustainable growth. **Design/methodology/approach:** This paper implements a qualitative method by implementing a multi-case study research strategy, both from the Islamic banking institutions and the MSME industries. The data were gathered primarily through an interview approach by adopting purposive uncontrolled quota sampling. **Findings:** The findings of this paper reveal two essential issues: First, the regulatory imbalances and restrictions could demotivate and hinder the efforts of Islamic banks in providing access to finance for the MSME segment, hence, encumbering the achievement of the financial inclusion agenda from the Islamic banking industry. Second, the flaws in MSME registration and taxation might discourage the formal MSMEs from extending their business license and prevent the informal MSME units from registering their business. This issue would potentially lower their chance of accessing external financing from the formal financial institutions and participating in supportive government programmes due to the absence of proper legality. **Research limitations/implications:** Since this paper only observed six Islamic banks and 22 MSME units in urban and rural locations in Indonesia using a case study approach, the empirical findings and case discussions were limited to those respective Islamic banks and MSME participants. **Practical implications:** By referring to the recommendations as presented in this paper, two critical policy implications could be expected from adopting the proposed recommendations, among others: By addressing the issues of the regulatory imbalance associated with the Islamic banking industry and introduce the deregulatory policies on profit and loss sharing (PLS) scheme implementation, this approach will motivate the Islamic banking industry in serving the MSME sector better and provide greater access to financial services, particularly in using the PLS financing schemes. By resolving the problems on MSME registration and taxation, this strategy will enhance the sustainability of the formal MSMEs' operation and encourage the informal ones to register, hence, improving their inclusion into the formal financing services and government assistance programmes. **Originality/value:** The present study attempts to address the literature shortcomings and helps to fill the gaps – both theoretical and empirical – by incorporating the multi-case study among Indonesian Islamic banks and MSMEs to extensively explore the Indonesia regulatory environment pertaining to the Islamic banking system (supply-side) and MSMEs (demand-side), and thoroughly investigates and reveals the restrictive laws and regulatory flaws that could potentially hinder the Islamic banking institutions and MSME industries in attaining financial inclusion and contributing to sustainable development. © 2023, Emerald Publishing Limited.

#### Author Keywords

Financial inclusion; Indonesia; Islamic bank; MSME; Regulation

#### References

- Acemoglu, D., Johnson, S., Robinson, J.A.  
**The colonial origins of comparative development: an empirical investigation**  
(2001) *American Economic Review*, 91 (5), pp. 1369-1401.
- Aghion, L., Howitt, P., Levine, R.  
**Financial development and innovation-led growth**  
(2018) *Handbook of Finance and Development*, pp. 3-30.  
doi:, Edward Elgar Publishing, New York, NY
- Ahamed, M.M., Mallick, S.K.  
**Is financial inclusion good for bank stability? International evidence**  
(2019) *Journal of Economic Behavior and Organization*, 157, pp. 403-427.
- Allen, F., Demirguc-Kunt, A., Klapper, L., Peria, M.S.M.  
**The foundations of financial inclusion: understanding ownership and use of formal accounts**  
(2016) *Journal of Financial Intermediation*, 27, pp. 1-30.

- Allen, F., Santomero, A.M.  
**The theory of financial intermediation**  
(1997) *Journal of Banking and Finance*, 21 (11-12), pp. 1461-1485.
- (2013) *Access to trade and growth of women`s SMEs in APEC developing countries – evaluating the business environment in Indonesia*, APEC and the Asia Foundation
- Asteriou, D., Spanos, K.  
**The relationship between financial development and economic growth during the recent crisis: evidence from the EU**  
(2019) *Finance Research Letters*, 28, pp. 238-245.
- Atkinson, A.  
(2017) *Financial education for MSMEs and potential entrepreneurs*, doi:, OECD Working Papers on Finance, Insurance and Private Pensions, 43
- (2012) *Regulation no. 14/22/PBI/2012*,
- (2012) *Circular no. 15/35/DPAU*,
- (2015) *Regulation no.17/12/PBI/2015*,
- (2023) *Keuangan inklusif: strategi nasional keuangan inklusif*, bi.go.id
- Boddy, C.R.  
**Sample size for qualitative research**  
(2016) *Qualitative Market Research: An International Journal*, 19 (4), pp. 426-432.
- Boyatzis, R.E.  
(1998) *Transforming Qualitative Information: Thematic Analysis and Code Development*, Sage, London
- (2016) *Strategi nasional keuangan inklusif*,
- Chandra, Y., Shang, L.  
**Inductive coding**  
(2019) *Qualitative Research Using R: A Systematic Approach*, pp. 91-106.  
doi:, Springer, Singapore
- Chatterjee, A.  
**Financial inclusion, information and communication technology diffusion, and economic growth: a panel data analysis**  
(2020) *Information Technology for Development*, 26 (3), pp. 607-635.
- Corbin, J., Strauss, A.  
**Grounded theory research: procedures, canons and evaluative criteria**  
(1990) *Zeitschrift Für Soziologie*, 19 (6), pp. 418-427.
- Demetriades, P., Hook Law, S.  
**Finance, institutions and economic development**  
(2006) *International Journal of Finance and Economics*, 11 (3), pp. 245-260.
- Dong, Y., Men, C.  
**SME financing in emerging markets: firm characteristics, banking structure and institutions**  
(2014) *Emerging Markets Finance and Trade*, 50 (1), pp. 120-149.
- Dudovskiy, J.  
(2018) *The ultimate guide to writing a dissertation in business studies: a step-by-Step*

assistance,

- Dutta, N., Meierrieks, D.  
**Financial development and entrepreneurship**  
(2021) *International Review of Economics and Finance*, 73, pp. 114-126.
- Dwi, H.  
(2017) *3 Peran penting UMKM. Penggerak penting ekonomi Indonesia*, Kompasiana: accessed 8 November 2019
- Ekbia, H.R.  
**Digital artifacts as quasi-objects: qualification, mediation, and materiality**  
(2009) *Journal of the American Society for Information Science and Technology*, 60 (12), pp. 2554-2566.
- Figart, D.M.  
**Institutionalist policies for financial inclusion**  
(2013) *Journal of Economic Issues*, 47 (4), pp. 873-894.
- Freixas, X., Rochet, J.C.  
(2008) *Microeconomics of Banking*, MIT press, London
- Haini, H.  
**Examining the relationship between finance, institutions and economic growth: evidence from the ASEAN economies**  
(2020) *Economic Change and Restructuring*, 53 (4), pp. 519-542.
- Huda, A.N.  
**The development of Islamic financing scheme for SMEs in a developing country: the Indonesian case**  
(2012) *Procedia - Social and Behavioral Sciences*, 52, pp. 179-186.
- Hunjra, A.I., Islam, F., Verhoeven, P., Hassan, M.K.  
**The impact of a dual banking system on macroeconomic efficiency**  
(2022) *Research in International Business and Finance*, 61, p. 101647.
- (2019) *Annual report 2019*,
- (2020) *Annual report 2020*,
- (2016) *Women-owned SMEs in Indonesia: a golden opportunity for local financial institutions*, International Finance Corporation, World Bank and USAID
- (2019) *Financing small businesses in Indonesia: challenges and opportunities*, International Labour Organisation – Jakarta
- (2018) *Kontribusi UMKM dalam roda perekonomian Indonesia*, accessed 7 November 2019
- (2008) *Regulation no. 20/2008 governing MSMEs*,
- Irjayanti, M., Aziz, A.M.  
**Barrier factors and potential solutions for Indonesian SMEs**  
(2012) *Procedia Economics and Finance*, 4, pp. 3-12.
- Keefer, P., Knack, S.  
**Why don't poor countries catch up? A cross-national test of an institutional explanation**  
(1997) *Economic Inquiry*, 35 (3), pp. 590-602.

- Kim, D.W., Yu, J.S., Hassan, M.K.  
**Financial inclusion and economic growth in OIC countries**  
(2018) *Research in International Business and Finance*, 43, pp. 1-14.
- (2020) *Impact of the COVID-19 outbreak on Islamic finance in the OIC countries*,
- Kuester, S., Konya-Baumbach, E., Schuhmacher, M.C.  
**Get the show on the road: go-to-market strategies for e-innovations of start-ups**  
(2018) *Journal of Business Research*, 83, pp. 65-81.
- Levine, R.  
**Finance and growth: theory and evidence**  
(2005) *Handbook of Economic Growth*, 1, pp. 865-934.
- Lyytinen, K., Yoo, Y., Boland, R.J., Jr.  
**Digital product innovation within four classes of innovation networks**  
(2016) *Information Systems Journal*, 26 (1), pp. 47-75.
- Marcelin, I., Mathur, I.  
**Financial development, institutions and banks**  
(2014) *International Review of Financial Analysis*, 31, pp. 25-33.
- Marcelin, I., Egbendewe, A.Y., Oloufade, D.K., Sun, W.  
**Financial inclusion, bank ownership, and economy performance: evidence from developing countries**  
(2022) *Finance Research Letters*, 46, p. 102322.
- Mathur, I., Marcelin, I.  
**Institutional failure or market failure?**  
(2015) *Journal of Banking and Finance*, 52, pp. 266-280.
- (2017) *Indonesian MSME statistic*,
- Nassr, I.K., Robano, V., Wehinger, G.  
(2016) *Unleashing the export potential of SMEs in Greece*,  
doi:, OECD Working Papers on Finance – Insurance and Private Pensions, 41
- (2018) *SME and entrepreneurship policy in Indonesia 2018*,  
accessed 19 April 2019
- (2017) *Strategi nasional literasi keuangan Indonesia*,
- Prochniak, M., Wasiak, K.  
**The impact of the financial system on economic growth in the context of the global crisis: empirical evidence for the EU and OECD countries**  
(2017) *Empirica*, 44 (2), pp. 295-337.
- Qamruzzaman, M., Jianguo, W., Jahan, S., Yingjun, Z.  
**Financial innovation, human capital development, and economic growth of selected South Asian countries: an application of ARDL approach**  
(2021) *International Journal of Finance and Economics*, 26 (3), pp. 4032-4053.
- Queirós, A., Faria, D., Almeida, F.  
**Strengths and limitations of qualitative and quantitative research methods**  
(2017) *European Journal of Education Studies*,
- Rajan, R.G., Zingales, L.  
**The great reversals: the politics of financial development in the twentieth century**  
(2003) *Journal of Financial Economics*, 69 (1), pp. 5-50.

- Rosengard, J.K., Prasetyantoko, A.  
**If the banks are doing so well, why can't I get a loan? Regulatory constraints to financial inclusion in Indonesia**  
(2011) *Asian Economic Policy Review*, 6 (2), pp. 273-296.
- Rousseau, P.L., Wachtel, P.  
**Inflation thresholds and the finance–growth nexus**  
(2002) *Journal of International Money and Finance*, 21 (6), pp. 777-793.
- Saifurrahman, A., Kassim, S.  
**Islamic financial literacy for Indonesian MSMEs during COVID-19 pandemic: issues and importance**  
(2021) *Journal of Islamic Finance*, 10, pp. 45-60.
- Saifurrahman, A., Kassim, S.  
**Enhancing the MSME Islamic financial inclusion in Indonesia: an institutional theory perspective**  
(2023) *Journal of Accounting and Finance*, 23 (2), pp. 6-25.
- Scholtens, B., Van Wensveen, D.  
(2003) *The theory of financial intermediation: an essay on what it does (not) explain (no. 2003/1)*,  
SUFER Studies
- Seman, J.A.  
(2016) *Financial inclusion: the role of financial system and other determinants*,  
Doctoral Dissertation, University of Salford
- Soemanagara, D.F.  
(2019) *Salurkan kredit UMKM 20%, beberapa bank belum capai target*,  
Mnews.co.id: accessed 11 November 2019
- Sudarwan, I.A.  
(2018) *Belum semua bank mampu penuhi kewajiban kredit UMKM 20%, ini komentar BI*,  
Bisnis.com: accessed 11 November 2019
- Suharto, S., Fasa, M.I.  
**The challenges of Islamic bank for accelerating the growth of micro, small and medium enterprises (MSMEs) in Indonesia**  
(2017) *Li Falah: Jurnal Studi Ekonomi Dan Bisnis Islam*, 2 (2), pp. 1-19.
- Sultana, N., Turkina, E.  
**Foreign direct investment, technological advancement, and absorptive capacity: a network analysis**  
(2020) *International Business Review*, 29 (2), p. 101668.
- Thomas, D.R.  
**A general inductive approach for analyzing qualitative evaluation data**  
(2006) *American Journal of Evaluation*, 27 (2), pp. 237-246.
- Tiwana, A., Konsynski, B., Bush, A.A.  
**Research commentary-Platform evolution: Coevolution of platform architecture, governance, and environmental dynamics**  
(2010) *Information Systems Research*, 21 (4), pp. 675-687.
- von Briel, F., Davidsson, P., Recker, J.  
**Digital technologies as external enablers of new venture creation in the IT hardware sector**  
(2018) *Entrepreneurship Theory and Practice*, 42 (1), pp. 47-69.

- Wellalage, N.H., Hunjra, A.I., Manita, R., Locke, S.M.  
**Information communication technology and financial inclusion of innovative entrepreneurs**  
(2021) *Technological Forecasting and Social Change*, 163, p. 120416.
- Williamson, O.E.  
(1996) *The Mechanisms of Governance*,  
Oxford university press, New York, NY
- (2014) *Indonesia: avoiding the trap*,  
Development Policy Review, Jakarta
- (2014) *Doing business 2015 – going beyond efficiency*,  
Washington, DC
- Yin, R.K.  
(2014) *Case Study Research: Design and Methods*,  
5th ed., Sage Publications, Thousand Oaks, CA
- Yustiardi, A.F., Diniyya, A.A., Faiz, F.A.A., Subri, N.S., Kurnia, Z.N.  
**Issues and challenges of the application of mudarabah and musharakah in Islamic bank financing products**  
(2020) *Journal of Islamic Finance*, 9 (2), pp. 26-41.

**Correspondence Address**

Saifurrahman A.; Institute of Islamic Banking and Finance, Malaysia; email: say4rm@gmail.com

**Publisher:** Emerald Publishing

**ISSN:** 17554179

**Language of Original Document:** English

**Abbreviated Source Title:** Qual. Res. Financ. Markets

2-s2.0-85174626173

**Document Type:** Article

**Publication Stage:** Article in Press

**Source:** Scopus