

[Results for REGULATORY IS...](#) >

Regulatory issues inhibiting the financial inclusion: a case study among Isla...

# Regulatory issues inhibiting the financial inclusion: a case study among Islamic banks and MSMEs in Indonesia

**By** Saifurrahman, A; Kassim, SH**Source** QUALITATIVE RESEARCH IN FINANCIAL MARKETS

Volume: 16 Issue: 4 Page: 589-617

DOI: 10.1108/QRFM-05-2022-0086

**Published** JUN 14 2024**Early Access** OCT 2023**Document Type** Article

**Abstract** PurposeThe 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/approachThis 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.FindingsThe findings of this paper reveal two essential issues: First, the regulatory imbalances and restrictions could



MENU



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.

**Accession  
Number**

WOS:001087615900001

ISSN

1755-4179

[– See fewer data fields](#)

## Citation Network

In Web of Science Core Collection

**2**

Citations

**72**

Cited References

How does this document's citation performance compare to peers?

[← Open comparison metrics panel](#)

Data is from InCites Benchmarking & Analytics



Accelerating innovation

© 2024 Clarivate Data Correction Copyright NoticeManage cookie preferences Follow Us

Training Portal Privacy StatementCookie Policy

Product SupportNewsletter

Terms of Use



## This record is from:

### Web of Science Core Collection

- Emerging Sources Citation Index (ESCI)

### Suggest a correction

If you would like to improve the quality of the data in this record, please [Suggest a correction](#)