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The Impact of COVID-19 Pandemic on Islamic Financial Inclusion: An Analysis of Research Trends 2020-2023

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Abstract: This study aims to assess the impact of the COVID-19 pandemic on Islamic financial inclusion in Indonesia through a library research approach with an integrative review method. By reviewing literature from reputable databases such as Google Scholar, Scopus, and DOAJ during the period 2015-2024, this study identifies trends, contributions, and research gaps in the development of Islamic financial inclusion during the crisis. The analysis shows that the pandemic has become an important momentum in driving the digital transformation of the Islamic financial sector, strengthening the role of technology, and increasing collaboration between stakeholders. Service digitization, product innovation, and public education have emerged as the main strategies in expanding access to and participation in Islamic finance. However, the success of these initiatives is highly dependent on infrastructure readiness, adaptive regulations, and public digital literacy. The findings provide theoretical and practical contributions to the development of inclusive Islamic finance policies in the post-pandemic era. This study also recommends the need for further research on the effectiveness of digital Islamic finance education and its impact on MSMEs.

Keywords: Islamic Financial Inclusion, COVID-19, Integrative Review, Digitalization, Financial Literacy.

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A. INTRODUCTION

Islamic financial inclusion refers to providing fair and equal access to financial products and services that comply with sharia principles, such as the prohibition of riba, gharar, and maysir. The ultimate goal is to empower individuals and communities, especially the marginalized, through ethical and sustainable access to finance (Umar, 2017). According to Sarma and Pais (2011), effective financial inclusion can promote economic growth and reduce social inequality. In the Indonesian context, the development of an Islamic financial inclusion index has been conducted to measure the extent to which people can access Islamic financial services equally (Umar, 2017).

Research by Novreska and Arundina (2024) shows that Islamic financial inclusion has a significant role in reducing poverty and improving human development in Indonesia. Analysis of panel data from 33 provinces during 2014-2022 revealed that an increase in the Islamic financial inclusion index is positively correlated with a decrease in poverty rates, especially in provinces with high Human Development Index (HDI). However, the relationship between Islamic financial inclusion and income inequality is not significant, suggesting the need for a more holistic approach in Islamic financial policy to address social inequality.

The study by Banna et al. (2022) highlights the role of digital financial inclusion in maintaining Islamic banking stability during the COVID-19 pandemic. By analyzing data from 65 Islamic banks across six countries, the study found that the adoption of inclusive digital financial services can reduce default risk and improve the stability of the Islamic banking sector. This suggests that the digitization of Islamic financial services not only expands access, but also strengthens the resilience of the financial sector in the face of crisis.

Research by Irfany et al. (2022) in Sumedang Regency revealed that Islamic financial inclusion positively contributes to microenterprise capital growth. Using the SEM-PLS approach, this study shows that wider access to Islamic financial services can improve the capital capacity and performance of micro enterprises. This finding is reinforced by another study showing that Islamic financial inclusion can strengthen the economic resilience of MSMEs during the COVID-19 pandemic (Salma et al., 2023).

The study by Salma et al. (2023) emphasizes the importance of Islamic financial inclusion in building the economic resilience of MSMEs during the pandemic. By analyzing the role of Islamic microfinance institutions, this study shows that wider access to Islamic financial services can help MSMEs survive and thrive amid the crisis. This is in line with the findings by Irfany et al. (2022) which showed that Islamic financial inclusion can improve the capital capacity and performance of micro enterprises.

From the above studies, it appears that Islamic financial inclusion plays an important role in reducing poverty, improving banking stability, and strengthening the economic resilience of MSMEs during the COVID-19 pandemic. However, there is a gap in the literature regarding the integration between digital Islamic financial inclusion and its impact on social inequality and its effectiveness in various regional contexts in Indonesia. Therefore, this study aims to analyze research trends related to the impact of the COVID-19 pandemic on Islamic financial inclusion in Indonesia during the period 2020-2023, with a focus on identifying research gaps and recommendations for the development of more effective Islamic financial inclusion policies.

B. METHOD

This study uses a library research approach with an integrative review method to identify and analyze research trends related to the impact of the COVID-19 pandemic on Islamic financial inclusion in Indonesia during the period 2020-2023. This approach allows researchers to integrate findings from various scientific sources to build a comprehensive and systematic understanding (Torraco, 2005). The integrative review approach is also suitable for evaluating heterogeneous literature and combining findings from different research methods. The main objective of this method is to synthesize existing knowledge and identify unanswered research gaps.

Data sources in this study were obtained from reputable scientific databases such as Google Scholar, Scispace, DOAJ (Directory of Open Access Journals), and Scopus. The literature included in this review had to meet the inclusion criteria, namely: (1) published within 2015-2024; (2) discussing topics related to Islamic financial inclusion, COVID-19, and/or MSMEs; (3) using relevant empirical or conceptual approaches; and (4) available in full-text. The exclusion criteria include: (1) opinion or editorial articles without a strong academic foundation; (2) duplication of articles; and (3) articles that have no contextual relevance to Islamic financial inclusion in Indonesia. The literature search process was conducted using a combination of keywords such as "Islamic Financial Inclusion", "COVID-19", 'Indonesia', "Islamic Microfinance", and "Sharia Banking Resilience".

The literature selection procedure was conducted through two main stages: an initial screening stage based on titles and abstracts, and then a full-text screening stage to assess the suitability of the content to the research objectives. Articles that passed both stages were thematically analyzed to identify trends, key themes, and theoretical and practical contributions. The data analysis method used was narrative synthesis, which aims to combine information from various literatures to form a new framework of understanding (Whittemore & Knafl, 2005). The results of the analysis were systematically organized by thematic focus, publication period, and database source to ensure an organized narrative structure.

To ensure the validity and reliability of the review results, the literature selection process was conducted independently by two different researchers, and then compared to reach agreement (inter-rater reliability). In addition, researchers also applied the principle of transparency by documenting the entire literature search and selection process in writing. Content validity was strengthened by including literature from highly reputable sources and referring to peer-reviewed journal articles. With these steps, the methodological integrity and validity of the findings in this study can be scientifically accounted for.

C. RESULTS AND DISCUSSION

1. The Dynamics of Sharia Financial Inclusion Amid the COVID-19 Pandemic

The COVID-19 pandemic has become a major challenge for many sectors, including Islamic finance in Indonesia. In this context, Islamic financial inclusion becomes more important as a strategy to promote economic recovery. Research shows that Islamic financial inclusion plays a role in reducing economic perceptions through better access to financial services, especially for Micro, Small and Medium Enterprises (MSMEs) affected by the pandemic (Afandi, 2022; Lubis & Ramadhoni, 2020).

During the pandemic, financial technology (fintech) has emerged as an effective alternative tool to facilitate Islamic financial inclusion. Fintech can increase accessibility to Islamic products and services for people, who previously may not have been able to reach formal financial institutions (Norrahman, 2023; Istifadhoh et al., 2021). For example, research conducted in Lamongan shows that Islamic fintech can increase the effectiveness of financial inclusion by providing more affordable and transparent services to the community (Nengsih, 2023). In addition, the benefits of fintech are also seen in the financial decentralization system that reduces barriers for people to access financial services (Norrahman, 2023).

However, significant challenges remain. Islamic financial literacy among the public is still low, and this hinders the potential for greater financial inclusion. Several studies have shown that a poor understanding of Islamic financial products as well as a lack of socialization regarding fintech services can reduce the effectiveness of inclusion efforts (Abadi et al., 2020;

Rustan et al., 2022). In this context, it is important to develop education and training programs that focus on Islamic financial literacy, which can help people understand how to use financial products and services correctly (Saragi & Rahmi, 2022; , Zahra & Nurhasanah, 2023).

In addition, the influence of Islamic banking in increasing financial inclusion can also be optimized through product innovation and digital service development. With better access and innovation, Islamic banking products and services can be more competitive and relevant in responding to the needs of the community in the post-pandemic period (Riduwan et al., 2024; , Aripin et al., 2022). Therefore, strategic collaboration between financial institutions, fintech, and government agencies needs to be focused on encouraging broader and more sustainable Islamic financial inclusion (Nufus et al., 2024; Widyandri & Laila, 2022).

2. The Role of Digital Technology in Encouraging Access to Sharia Finance

The development of digital technology plays an important role in increasing access to Islamic finance in Indonesia, especially in the midst of conditions influenced by global social and economic changes. Digital technology, particularly fintech, has proven to be one of the key drivers in the transformation of the Islamic financial sector, by providing greater convenience and accessibility for the public (Susanti, 2024; Norrahman, 2023).

One significant step in encouraging access to Islamic finance is through the application of technology such as blockchain. This technology not only offers security and transparency in transactions, but can also speed up administrative processes and reduce operational costs (Trimulyana, 2024; Najibulloh & Rahmalia, 2024). The application of smart contracts in Islamic financial transactions can accelerate settlement and increase trust in the products and services offered (Kanwal et al., 2023; Truby et al., 2022).

In addition, research shows that the integration of crowdfunding with digital technology, such as e-wakaf, can create new opportunities in sharia-based funding (Wahyudi et al., 2024; . Islamic crowdfunding not only increases public participation in investments that are in accordance with Islamic principles, but boosts people's financial literacy, thereby encouraging economic growth that is also more inclusive (Wahyudi et al., 2024; Shafiya et al., 2022). This becomes especially relevant in the industrial era 5.0, where digital innovation is increasingly necessary to achieve financial desirability and inclusion (Susanti, 2024).

Furthermore, fintech technologies such as payment apps and peer-to-peer (P2P) lending platforms are suitable for millennials who seek sharia-compliant financial and practical solutions that support their lifestyle (Mansyur & Ali, 2022). The use of apps such as Link Aja Syariah, Ammana, and Alami shows that the adoption rate of digital technology in Islamic finance is increasing. This expands the reach of financial services, especially to those previously not served by the formal financial system (Norrahman, 2023; Ismamudi et al., 2023).

However, although the application of digital technology in Islamic finance is showing positive results, there are still challenges that need to be faced, such as stringent regulations and concerns about data security (Abubakar & Handayani, 2022; Khumairok, 2023). Therefore, the development of a regulatory framework that is adaptive and responsive to technological innovation is crucial to ensure sustainable growth in the Islamic finance sector (Abubakar & Handayani, 2022; Alfiana et al., 2023).

Overall, the role of digital technology in promoting access to Islamic finance is significant, with the potential to improve operational efficiency, expand service coverage, and increase community participation. The success of these initiatives depends not only on the application of technology, but also on public education efforts and understanding of Islamic financial products and services (Koskelainen et al., 2023; Ismamudi et al., 2023).

3. New Post-Pandemic Challenges and Opportunities for Islamic Financial Inclusion

Post COVID-19 pandemic, Islamic financial inclusion in Indonesia is facing significant challenges as well as new opportunities. The digital transformation accelerated by the pandemic has brought significant changes to the patterns of access and use of financial products, especially in the Islamic sector. One of the main challenges is the adaptation of Islamic banks to the economic changes caused by COVID-19. Research shows that Islamic banks have experienced a decline in financial performance, reflected by depressed profitability and liquidity ratios during the pandemic (Safitri et al., 2021; Harniati et al., 2022). However, Islamic bank mergers promoted by the government, such as the formation of Bank Syariah Indonesia (BSI), could potentially be a way out. These mergers not only improve operational efficiency but also expand market share and increase competitiveness (Fiqri et al., 2021; Normasyhuri et al., 2022).

On the other hand, the digitalization of Islamic banking services has become one of the promising opportunities. Research shows that digital-based financial inclusion can accelerate access for Micro, Small and Medium Enterprises (MSMEs) that have been marginalized. The use of technology for digital transactions allows MSMEs to access financing more easily and cheaply (Sailendra & Djaddang, 2022). Digitalization also improves recording and monitoring of transactions, which is a requirement to meet financing criteria from financial institutions (Sailendra & Djaddang, 2022).

However, it is important to improve financial literacy among the public. The gap in understanding of Islamic financial products can hamper inclusion potential. Younger groups, especially millennials, are more likely to use Islamic financial technology, but they also need a better understanding of these products. Therefore, financial education focused on sharia concepts is essential to optimize this potential (Nuriman et al., 2023).

In this context, the government and relevant institutions should work together to create a conducive environment for the growth of Islamic banks. Policies that support innovation, such as the Financial Services Authority Regulation No. 11/POJK.03/2020, provide a stimulus for the financial sector to support post-pandemic growth (Dipoyanti et al., 2022; Albanjari & Kurniawan, 2022). In addition, attention to the development of adequate technological infrastructure, as well as policies that protect consumer data and prevent the risk of fraud should also be prioritized (Safitri et al., 2021).

Overall, despite the challenges and post-pandemic economic conditions, opportunities through digitalization and strategic mergers provide new hope for the growth of Islamic financial inclusion in Indonesia. Synergy between all stakeholders is needed to ensure that inclusive Islamic finance can be realized effectively and sustainably.

D. CONCLUSIONS AND SUGGESTIONS

The COVID-19 pandemic has become a transformational momentum for the development of Islamic financial inclusion in Indonesia. Increased utilization of digital technology, innovative product development, and strategic collaboration between financial institutions, fintechs and the government have been key in expanding access to Islamic finance. While challenges remain, the opportunities of digitalization pave the way for broader and more sustainable inclusion growth post-pandemic.

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