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Evaluating the effectiveness of city-level Islamic economic coordination in advancing Sharia financial inclusion in Bandar Lampung

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ABSTRACT

Introduction

Islamic financial inclusion has increasingly been promoted as a strategic instrument for inclusive economic development, particularly in emerging economies where micro, small, and medium enterprises play a central role in employment creation and poverty reduction. In Indonesia, the establishment of regional Islamic economic coordination bodies represents a policy effort to strengthen local Islamic financial ecosystems. Nevertheless, empirical evaluations of how such institutions operate and contribute to Islamic financial inclusion at the city level remain limited, especially outside major metropolitan areas.

Objectives

This study aims to evaluate the effectiveness of a city-level Islamic economic coordination program in enhancing Islamic financial inclusion. It specifically examines the roles of Islamic financial literacy initiatives, access to Sharia-compliant financing, post-financing assistance, MSME clustering, and institutional governance in shaping inclusion outcomes.

Method

The study adopts a qualitative descriptive approach using an effectiveness evaluation framework. Data were collected through semi-structured interviews with key stakeholders, including program administrators, Islamic financial institutions, local government officials, and MSME beneficiaries, complemented by document analysis of policy reports and program records. Thematic analysis was employed to identify patterns related to program implementation, institutional capacity, and observed outcomes.

Results

The findings indicate that the program generated positive short-term outcomes, including increased awareness of Islamic finance,

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improved access to Sharia-compliant financing, and the initiation of Sharia-based MSME clusters. However, overall effectiveness was constrained by limited post-financing assistance, uneven capacity-building, weak institutional coordination, and the absence of a systematic monitoring and evaluation framework. Access to financing alone did not consistently translate into sustainable MSME growth without continuous mentoring and institutional support.

Implications
The results highlight that effective Islamic financial inclusion requires an integrated approach combining financial literacy, financing, capacity-building, and strong local governance. For policymakers, the study underscores the importance of strengthening institutional mandates, allocating dedicated resources, and developing evidence-based monitoring systems to enhance program sustainability and impact.

Originality/Novelty
This study contributes original empirical evidence from a subnational context by linking institutional governance analysis with MSME-level outcomes. It advances the literature on Islamic financial inclusion by demonstrating how city-level coordination bodies shape inclusion effectiveness and by emphasizing the value of effectiveness evaluation frameworks in Islamic economic governance.

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INTRODUCTION

Islamic finance has increasingly been recognized as a critical component of inclusive economic development, particularly in emerging and developing economies where financial exclusion remains pervasive. Over the past decade, empirical studies have demonstrated that Islamic financial systems—grounded in risk-sharing, ethical investment, and social justice—offer viable alternatives to conventional finance in expanding access to capital for underserved populations (Kakembo et al., 2021; Zauro et al., 2020). By emphasizing asset-backed financing and prohibiting exploitative practices, Islamic finance aligns closely with the objectives of inclusive growth and poverty reduction. This alignment has elevated Islamic financial inclusion as a policy-relevant instrument for achieving sustainable development goals, especially in Muslim-majority contexts where religious considerations significantly influence financial behavior (Masrizal et al., 2025).

Recent literature further highlights the strategic role of Islamic finance in strengthening Micro, Small, and Medium Enterprises (MSMEs), which constitute the backbone of employment and income generation in developing economies. MSMEs supported by Sharia-compliant financing mechanisms such as murābaḥah and qard ḥasan have been shown to exhibit improved business performance, reduced vulnerability to debt distress, and greater resilience in volatile economic environments (Buyondo, 2024; Fadila et al., 2025). Empirical evidence from countries such as Uganda, Nigeria, and Indonesia confirms that financial inclusion—when combined with Islamic financial literacy—positively correlates with MSME productivity, employment creation, and poverty alleviation (Saifurrahman & Kassim, 2024; Tubastuvi et al., 2024). These findings underscore the growing consensus that Islamic finance is not merely faith-based finance, but a development-oriented system with measurable socioeconomic benefits.

Despite this potential, the implementation of Islamic financial inclusion programs at the subnational or local level continues to face substantial structural and institutional challenges. A recurring issue identified in the literature is the persistently low level of Islamic financial literacy among target communities, which limits effective utilization of Sharia-compliant products (Lut'fiyah et al., 2025). Many beneficiaries remain unfamiliar with Islamic financial contracts, leading to misperceptions, underutilization, or mistrust of Islamic financial institutions. This challenge is compounded by regulatory ambiguities and the absence of locally tailored legal frameworks that adequately support Islamic finance operations, thereby weakening institutional credibility and consumer confidence (Jaya et al., 2025; Zakaria, 2025).

In addition to literacy and regulatory constraints, administrative inefficiencies and governance weaknesses further undermine program effectiveness. Complex bureaucratic procedures, fragmented inter-agency coordination, and inadequate public service capacity often delay or distort the delivery of Islamic financial services (Jayanto et al., 2025). Infrastructure deficiencies—particularly limited digital access—also restrict outreach, especially among rural and marginalized urban populations (Chakim et al., 2025). Moreover, political dynamics, weak community engagement, and inequitable access for women and vulnerable groups exacerbate exclusion, highlighting that Islamic financial inclusion challenges are systemic rather than merely technical (Fajri et al., 2023; Zuchroh & Maulidina, 2025).

In response to these challenges, the literature proposes various policy instruments and institutional solutions aimed at strengthening Islamic financial inclusion through coordinated governance. Integrated multi-stakeholder frameworks, such as the Pentahelix model, have gained prominence for their ability to align government, financial institutions, civil society, academia, and media in a shared development agenda (Minarni et al., 2025; Tabarik & Alfarezel, 2025). These models emphasize collaborative governance and resource pooling to overcome institutional fragmentation. Empirical cases from Malaysia and Indonesia illustrate that integrating zakat, waqf, and Islamic microfinance within coordinated institutional arrangements can enhance trust, efficiency, and outreach among low-income communities.

Public–private partnerships (PPPs) and the mobilization of Islamic social finance have also been identified as effective mechanisms for improving program sustainability and scale. Studies suggest that combining commercial Islamic finance with social instruments such as cash waqf and productive zakat can expand funding sources while preserving Sharia compliance (Samrat & Nabi, 2025). At the operational level, capacity-building initiatives—particularly those targeting MSME managerial skills and financial literacy—have been shown to significantly improve financing outcomes (Lut'fiyah et al., 2025). Additionally, the rise of Islamic fintech and Sharia-compliant peer-to-peer lending platforms offers new avenues for reducing access barriers and enhancing efficiency through digital innovation (Alvi et al., 2025; Rahmah et al., 2025).

However, while these solutions are widely discussed, existing studies reveal important limitations in evaluating the effectiveness of regional or local Islamic economic coordination bodies. Much of the literature relies on qualitative assessments that capture perceptions and institutional narratives but fall short of measuring tangible socioeconomic impacts (Darajat, 2025; Djakfar et al., 2025). Moreover, evaluations often overlook contextual diversity, assuming uniform effectiveness across regions with differing regulatory environments, social structures, and levels of financial literacy (Mukhlishin et al., 2024). The absence of standardized evaluation frameworks further hampers comparative analysis and evidence-based policy formulation, leaving a critical gap in understanding how such institutions perform in practice.

Islamic economics and finance, also called Sharia economics and finance, have emerged as strategic pillars of national and regional economic development in Indonesia, supported by the country's demographic advantage as the world's largest Muslim-majority nation. In recent years, the growth of Sharia-based sectors—including halal food and beverages, Muslim fashion, halal tourism, and Sharia finance—has accelerated significantly, reflecting increasing economic contributions rooted in Sharia values (Nida et al., 2024). Recognizing this potential, the Indonesian government has positioned Sharia economics as an integral component of inclusive and sustainable development. However, the realization of this potential depends not only on sectoral expansion but also on the strength of institutional frameworks that ensure equitable access, effective implementation, and alignment with Sharia principles across regions.

In response, the Government of Indonesia, through the National Committee for Sharia Economics and Finance, has promoted a structured national strategy by encouraging the establishment of Regional Committees for Sharia Economics and Finance at provincial and city levels or Komite Daerah Ekonomi dan Keuangan Syariah abbreviated KDEKS. These regional committees are designed as coordinating forums that bring together local governments, Sharia financial institutions, academics, business actors, and civil society to develop and implement Sharia-oriented economic programs (Albab et al., 2024; Arifudin et al., 2024). In Bandar Lampung City, the establishment of a regional committee represents a concrete institutional commitment to strengthening the local Sharia economic ecosystem. This commitment is supported by the city's role as an education, trade, and service hub, as well as the presence of Sharia banks, microfinance institutions, cooperatives, and zakat organizations that form the foundation of Sharia financial inclusion (Qadariyah & Permata, 2017).

Nevertheless, despite the implementation of various programs, the effectiveness of the Bandar Lampung regional committee in advancing Sharia financial inclusion remains insufficiently examined. Sharia financial inclusion encompasses not only expanded access to Sharia financial products but also the quality, sustainability, and public understanding of Sharia-compliant financial practices (Franciosi, 2025; Kenneh, 2024; Syamlan et al., 2025). National data indicate that Sharia financial inclusion and literacy levels remain lower than their conventional counterparts, particularly in regional contexts (Yaqin & Zuleika, 2024). These challenges underscore the need for systematic evaluation to assess program effectiveness, identify enabling and constraining factors, and develop evidence-based strategies. Accordingly, this study evaluates the effectiveness of city-level Islamic economic coordination in Bandar Lampung, examines institutional and operational barriers, and proposes strategic recommendations to strengthen inclusive and sustainable Sharia financial ecosystems grounded in Sharia values.

LITERATURE REVIEW

Conceptual Foundations of Islamic Financial Inclusion

Islamic financial inclusion is widely conceptualized in the literature as the provision of Sharia-compliant financial services to individuals and enterprises that are traditionally excluded from formal financial systems. Unlike conventional financial inclusion, Islamic financial inclusion is grounded not only in access and usage but also in ethical considerations such as the prohibition of riba (interest), gharar (excessive uncertainty), and unjust exploitation (Jouti, 2018). This conceptualization positions Islamic finance as an inherently values-driven system that integrates economic efficiency with social justice. Consequently, inclusion is understood not merely as market participation but as a mechanism for redistributive justice and equitable development, particularly within Muslim-majority societies (Dzulkepli & Barom, 2021).

Operationally, Islamic financial inclusion is implemented through multiple channels, including Islamic microfinance institutions, Sharia-compliant banking products, and the integration of Islamic social finance instruments such as zakat and waqf. Empirical studies demonstrate that financing modes such as murabahah, musharakah, and qard hasan are especially effective in extending capital access to low-income households and micro-entrepreneurs (Tabarik & Alfarezel, 2025). In addition, the growing use of digital Islamic financial services, including fintech platforms and peer-to-peer lending, has expanded outreach to previously underserved populations (Alvi et al., 2025; Masrina et al., 2024). These mechanisms collectively illustrate how Islamic financial inclusion is operationalized beyond formal banking structures.

Several theoretical frameworks underpin the study of Islamic financial inclusion. The concepts of *maslahah* (public welfare) and *maqasid al-shari'ah* (objectives of Islamic law) are frequently employed to evaluate whether financial practices contribute to broader social well-being and justice (Nailussifa & Kholis, 2024; Nasyaa et al., 2024; Putri et al., 2023; Shaharuddin et al., 2025; Zulkarnain et al., 2025). Complementary frameworks, such as stakeholder theory and behavioral finance, further explain how trust, financial literacy, and ethical perception influence participation in Islamic financial systems (Sadek et al., 2024; Saiti et al., 2022). Together, these frameworks provide a multidimensional foundation for analyzing inclusion in Islamic finance.

Institutional and Governance Perspectives in Islamic Finance

Institutional and governance theories play a central role in explaining how Islamic financial institutions and coordination bodies advance financial inclusion. Institutional theory emphasizes that financial organizations operate within formal regulatory structures and informal cultural norms that shape legitimacy and performance. In Islamic finance, adherence to Sharia governance frameworks is essential for institutional credibility and public trust (Hemrit, 2020; Simanjuntak et al., 2023; Sup et al., 2023). This theory highlights how compliance with religious and legal norms strengthens institutional stability and facilitates broader participation in Islamic financial services.

Stakeholder theory further extends this perspective by emphasizing the importance of engaging diverse actors, including regulators, customers, communities, and religious authorities. Empirical studies demonstrate that financial institutions that actively incorporate stakeholder interests tend to exhibit higher levels of transparency, trust, and customer satisfaction, which in turn enhances financial inclusion (Shabbir & Salman, 2025). This is particularly relevant for coordination bodies, which are expected to harmonize the interests of multiple stakeholders across public, private, and social sectors.

Another influential framework is the maqasid al-shari'ah approach to governance, which evaluates institutions based on their contribution to social welfare rather than financial performance alone. Research applying this framework shows that governance models aligned with maqasid principles encourage ethical decision-making, social responsibility, and inclusive financial practices (Asmar et al., 2023; Yonesha & Persaulian, 2025). Agency theory also contributes by analyzing accountability relationships within Islamic financial institutions, particularly regarding Sharia compliance and managerial oversight (Karbhari et al., 2020). These theoretical perspectives collectively support the importance of strong institutional design in promoting effective Islamic financial inclusion.

Empirical Evidence on the Effectiveness of Islamic Financial Inclusion

A substantial body of empirical literature confirms that Islamic financial inclusion programs positively affect MSME performance at the local and regional levels. Studies consistently show that access to Islamic financial services enhances business growth by enabling investment in productive assets, human capital, and innovation (Hasanudin & Panigfat, 2023). Evidence from various sectors—including agriculture, culinary enterprises, and small-scale manufacturing—demonstrates that MSMEs benefiting from Islamic financing exhibit improved financial performance and operational efficiency (Munawarah et al., 2022; Wibowo & Widayat, 2023).

Islamic microfinance, in particular, has been shown to play a crucial role in strengthening MSME capacity. Training programs linked to Islamic microfinance initiatives improve financial record-keeping, managerial skills, and compliance with Sharia principles, which collectively enhance enterprise sustainability (Risakotta & Sapulette, 2024). Moreover, financial literacy is frequently identified as a mediating variable that amplifies the impact of financial inclusion on MSME outcomes (Pagaddut, 2021). These findings underscore the importance of combining financial access with capacity-building interventions.

Beyond enterprise-level outcomes, Islamic financial inclusion contributes significantly to poverty reduction and broader socioeconomic development. Empirical studies indicate that MSMEs with access to Islamic financing create more employment opportunities and contribute to household income stability (Fomum & Opperman, 2023). The integration of Islamic social finance instruments, such as zakat and waqf, further enhances these effects by targeting the poorest segments of society and supporting inclusive growth (Firdaus et al., 2025; Ülev et al., 2023). Collectively, these findings highlight the developmental relevance of Islamic financial inclusion.

Evaluation Frameworks and Methodological Approaches

The literature employs diverse evaluation frameworks to assess Islamic financial inclusion initiatives, reflecting the complexity of the phenomenon. Integrated frameworks that combine conventional financial inclusion indicators with maqasid al-shari'ah objectives are widely used to capture both economic and ethical dimensions (Khairunnisa & Rusydiana, 2024). These frameworks provide a holistic view of inclusion by linking access, usage, and quality of services to social welfare outcomes. However, their multidimensional nature can complicate empirical measurement and attribution.

Quantitative approaches, including econometric modeling and composite index construction, are commonly applied to evaluate macro- and meso-level impacts. Studies using panel data analysis and error correction models demonstrate statistically significant relationships between Islamic financial inclusion and economic growth or poverty reduction (Junaidi, 2024). While these methods offer analytical rigor, they often depend on high-quality longitudinal data, which is frequently unavailable in developing contexts, limiting their generalizability.

Qualitative and mixed-methods approaches complement quantitative analyses by providing contextual depth. Case studies and interviews reveal how trust, transparency, and community engagement shape participation in Islamic finance (Z. A. Ahmad & Rusdianto, 2020). Mixed-methods designs are increasingly favored for capturing both measurable outcomes and lived experiences, though they require careful integration to avoid analytical inconsistency (Wafi & Muhammad, 2023). These methodological variations reveal both the strengths and limitations of existing evaluation practices.

Role of Regional Committees for Sharia Economics and Finance (KDEKS)

The Regional Committees for Sharia Economics and Finance (Komite Daerah Ekonomi dan Keuangan Syariah, KDEKS) play a crucial role in promoting and developing sharia-based economic practices at the regional level in Indonesia. Analyzing their functions from both institutional and programmatic perspectives provides insights into their contributions to the economy and the promotion of Sharia finance.

Institutional Perspective

KDEKS serves as a bridge between the central government and local governments, facilitating the implementation of national policies related to Islamic finance and economics. According to research by Albab et al. (2024), KDEKS has significantly contributed to the economic sector development in cities like Bandar Lampung, underscoring its role in local economic growth and sustainability through sharia-compliant initiatives. This role includes coordinating with local financial institutions, guiding Islamic banks, and setting regulations that promote adherence to Islamic principles in financial practices.

KDEKS operates within the framework established by the National Committee for Sharia Economics and Finance (KNEKS), which provides overarching strategies and policies. Initiatives led by KNEKS indicate that KDEKS must align its local actions with national strategies aimed at enhancing economic resilience through Islamic finance (Kusjuniati, 2020). This duality of tasking ensures that KDEKS acts not only in compliance with national directions but also tailors solutions to meet local needs.

Moreover, the institution works on inter-agency collaboration to address challenges in Islamic financial regulations and practices. It is essential that KDEKS leverages partnerships with relevant government ministries, regulatory bodies like Financial Services Authority (Otoritas Jasa Keuangan abbreviated OJK), and academic institutions for policy advocacy and community engagement in sharia finance (Harrieti & Abubakar, 2020).

Programmatic Perspective

From a programmatic perspective, KDEKS implements various initiatives that target community empowerment and economic development through Sharia finance. The establishment of cooperatives based on sharia principles reflects KDEKS's focus on promoting financial inclusion and empowering micro and small enterprises within the local economic ecosystem. These programs address the need for accessible financing options for the underserved segments of the population, particularly in rural areas, aligning with the national agenda for sustainable development.

The effectiveness of educational programs is also pivotal within KDEKS's programming approach. Enhancing financial literacy among stakeholders, such as consumers and small business owners, through community outreach and training is a notable focus area. Research emphasizes the need for comprehensive educational initiatives that familiarize individuals with sharia-compliant products and services (Farhan et al., 2023). This is crucial in fostering trust and promoting the adoption of Islamic financial services across demographic groups.

KDEKS's involvement in developing sharia-compliant microfinance institutions provides practical pathways for financial empowerment. Studies indicate that these institutions not only improve economic independence within communities but also cultivate entrepreneurship, enabling individuals to pursue business ventures sustainably (Hariq et al., 2024). As pointed out by Jamaludin et al. (2023), the integration of Islamic principles not only makes financial transactions ethically sound but also encourages risk-sharing and community welfare.

Furthermore, the governance aspect of KDEKS ensures adherence to sharia compliance in regional economic practices. This internal checks-and-balances mechanism, facilitated by the local fatwa institutions, effectively aligns local economic activities with Islamic guidelines (Handayani et al., 2023).

Research Gap and the Significance of the Study

Despite the growing body of literature on Islamic financial inclusion and regional Sharia economic institutions, significant research gaps remain. Existing studies tend to focus either on national-level policy frameworks or on isolated regional case studies without applying systematic effectiveness evaluation frameworks. While research acknowledges the strategic role of KDEKS, there is limited empirical assessment of how city-level coordination bodies perform across dimensions such as institutional governance, program implementation, and measurable socioeconomic outcomes. Moreover, many studies rely predominantly on descriptive or perception-based analyses, which restrict comparative evaluation and limit evidence-based policy learning.

Furthermore, regional diversity outside Java remains underrepresented in the literature. Studies rarely examine how local socioeconomic characteristics, financial literacy gaps, and institutional arrangements interact in shaping Sharia financial inclusion outcomes, particularly in cities with emerging Sharia ecosystems. This study addresses these gaps by providing a structured effectiveness evaluation of a city-level Islamic economic coordination body in Bandar Lampung. By integrating institutional analysis with program outcomes, the study contributes empirical evidence from Sumatra, offers insights into context-sensitive governance challenges, and provides data-driven recommendations to strengthen inclusive and sustainable Sharia financial development at the regional level.

METHOD

Research Design and Approach

This study adopts a qualitative descriptive research design to evaluate the effectiveness of a regional Islamic economic coordination program in enhancing Islamic financial inclusion at the city level. A qualitative approach is appropriate given the study's objective to explore institutional processes, stakeholder interactions, and program implementation dynamics rather than to test causal relationships quantitatively. The descriptive design allows for an in-depth examination of how policies and programs are operationalized in practice, particularly within complex governance and socio-cultural contexts.

The research is grounded in an effectiveness evaluation framework, focusing on the alignment between program objectives, implementation processes, and observed outcomes. This framework enables the study to assess not only what outcomes were achieved but also how and why these outcomes emerged. By emphasizing contextual understanding, the qualitative approach facilitates a nuanced interpretation of institutional performance, stakeholder coordination, and beneficiary experiences within Islamic financial inclusion initiatives at the local level.

Research Site and Unit of Analysis

The research was conducted in Bandar Lampung City, which was selected due to its strategic role in regional economic development and its status as an active site for the implementation of Islamic economic coordination initiatives. The city represents a relevant empirical context, as it combines a growing Islamic financial ecosystem with diverse socioeconomic characteristics, making it suitable for evaluating localized financial inclusion efforts.

The primary unit of analysis is the regional Islamic economic coordination body operating at the city level, including its programs, governance mechanisms, and interactions with key stakeholders. These stakeholders encompass local government agencies, Islamic financial institutions, MSMEs, and community representatives involved in or affected by Islamic financial inclusion programs. By focusing on the institutional level while incorporating stakeholder perspectives, the study captures both organizational performance and its broader socioeconomic implications.

Data Sources and Informant Selection

This study relies on primary and secondary data sources to ensure analytical depth and triangulation. Primary data were obtained through semi-structured interviews with key informants selected using purposive sampling. Informants were chosen based on their direct involvement in program planning, implementation, or utilization, ensuring that they possessed relevant knowledge and experiential insights. These informants included program administrators, representatives of Islamic financial institutions, local government officials, and MSME beneficiaries.

Secondary data consisted of official documents, policy reports, program guidelines, and institutional records related to Islamic financial inclusion initiatives in Bandar Lampung City. These documents provided contextual and factual information regarding program objectives, regulatory frameworks, and reported outcomes. The combination of primary and secondary data strengthened the credibility of the findings by allowing cross-verification of information across multiple sources.

Data Collection Techniques

Data collection was conducted using semi-structured interviews and document analysis. Semi-structured interviews were selected to balance consistency across informants with flexibility to explore emerging themes. An interview guide was developed based on the study's research questions and effectiveness evaluation framework, covering topics such as program objectives, implementation challenges, stakeholder coordination, and perceived outcomes. Interviews were conducted in a manner that encouraged open-ended responses, enabling informants to articulate their perspectives freely.

Document analysis complemented interview data by providing institutional and policy-level insights. Relevant documents were systematically reviewed to extract information on program design, implementation procedures, and reported achievements. This method enabled the researcher to contextualize interview findings within formal institutional narratives and to identify consistencies or discrepancies between planned and actual program execution.

Data Analysis Procedures

Data analysis followed a qualitative thematic analysis approach. Interview transcripts and documentary data were first organized and coded to identify recurring patterns, concepts, and categories relevant to the research objectives. Initial coding was conducted inductively, allowing themes to emerge from the data rather than imposing predefined categories. These initial codes were then refined and grouped into broader thematic dimensions corresponding to program effectiveness, institutional capacity, stakeholder coordination, and financial inclusion outcomes.

Thematic interpretation was guided by the effectiveness evaluation framework, linking empirical findings to program inputs, processes, and outcomes. This analytical process enabled the study to assess whether program activities were aligned with stated objectives and to identify factors that facilitated or constrained effectiveness. Throughout the analysis, data from different sources were compared to enhance analytical rigor and reduce potential bias.

Trustworthiness and Ethical Considerations

To ensure trustworthiness, the study employed several qualitative rigor strategies, including data triangulation, source corroboration, and transparent analytical procedures. Triangulation across interviews and documents helped validate findings and minimized reliance on single-source interpretations. Additionally, careful documentation of data collection and analysis steps enhanced the dependability and confirmability of the results.

Ethical considerations were observed throughout the research process. Informants participated voluntarily and were informed of the study's purpose. Anonymity and confidentiality were maintained to protect participants' identities and institutional affiliations. The study adhered to ethical research principles by ensuring that data were used solely for academic purposes and that interpretations accurately reflected informants' perspectives without distortion.

RESULTS

This study draws on data obtained from multiple primary sources, including administrators of the Regional Committee for Sharia Economics and Finance (KDEKS) of Bandar Lampung City, representatives of Sharia financial institutions (Bank Syariah Indonesia and Baitul Maal wat Tamwil), assisted micro, small, and medium enterprises (MSMEs or usaha mikro, kecil, dan menengah abbreviated UMKM), academics, and official KDEKS program documents. The findings are organized around three main dimensions aligned with the research questions: the effectiveness of KDEKS programs, institutional and operational constraints, and public perceptions of Sharia finance and KDEKS initiatives.

Implementation and Outcomes of KDEKS Programs

Sharia Financial Literacy Programs

One of the core activities of KDEKS Bandar Lampung is the implementation of Sharia financial literacy programs targeting various segments of the community. Documentation indicates that between 2023 and mid-2024, more than ten training sessions were conducted, covering topics such as fundamental principles of Sharia finance, differences between Sharia and conventional banking, basic Sharia contracts, and financial management for UMKM. These activities were intended to enhance public understanding and encourage the use of Sharia-compliant financial services.

Interviews with participants suggest that the training programs contributed positively to increasing awareness and correcting misconceptions about Sharia finance. As one UMKM participant explained:

> *"I learned about murabaha and musyarakah contracts. I used to think that Sharia banks are the same as conventional banks, just changing the terms. But now I understand better, although I am still confused about how to calculate it."* (Interview with KDEKS-assisted MSMEs owner, June 2024)

Nevertheless, direct observations revealed that most sessions relied heavily on one-way lectures and theoretical explanations, with limited practical exercises or simulations. This approach resulted in uneven comprehension among participants, particularly those with lower educational backgrounds, thereby constraining the overall effectiveness of the literacy programs.

Facilitation of Sharia Financing for MSMEs

KDEKS also plays an active role in facilitating access to Sharia-compliant financing for MSMEs through partnerships with Islamic financial institutions. Program records show that 187 micro-enterprises successfully obtained financing, primarily from Bank Syariah Indonesia and Baitul Maal wat Tamwil. Financing schemes mainly consisted of *murabahah* and *qardhul hasan*, with amounts ranging from approximately IDR 5 million to IDR 25 million per business unit.

The majority of MSMEs beneficiaries utilized the funds for working capital, including the purchase of raw materials and production equipment, product development such as packaging and branding improvements, and market expansion through digital platforms. However, interview data indicate that post-disbursement support was limited. Only around 40 percent of recipients received follow-up assistance or mentoring after financing was granted. One beneficiary noted:

> *"After the disbursement, we were no longer visited or guided. So we are confused about organizing reports, even though the Sharia bank asks for regular reports."* (Interview with an entrepreneur, May 2024)

This finding suggests that while access to financing was expanded, insufficient post-financing assistance weakened the sustainability of Sharia-based business development.

Empowerment of Sharia-Based UMKM Clusters

In addition to individual financing facilitation, KDEKS initiated the formation of Sharia-based UMKM clusters focusing on halal products, including processed food, Muslim apparel, and handicrafts. These clusters received support in the form of training on halal certification, basic business management, and digital marketing strategies. Field data show that two clusters, comprising a total of 50 members, successfully obtained halal certification and established online stores on Sharia-compliant e-commerce platforms.

These outcomes indicate that KDEKS contributed to encouraging Sharia compliance and digital transformation among MSMEs. However, observations also revealed structural weaknesses within the clusters. Coordination among members remained limited, no permanent management structures were established, and cluster activities were highly dependent on external support, such as funding and external facilitators. As a result, the long-term sustainability of cluster-based empowerment remains uncertain.

Institutional Performance and Inter-Stakeholder Coordination

Interviews with KDEKS administrators reveal that the committee operates in a collaborative manner but lacks a permanent secretariat. The organizational structure consists of a chairperson, a secretary, and several coordinators responsible for specific areas such as literacy, financing, and the halal industry. Most members, however, serve on a part-time basis while holding primary positions in other government offices or institutions.

Although the city government provides regulatory support for KDEKS, budgetary allocations remain limited. KDEKS does not receive regular operational funding and relies heavily on partnerships, sponsorships, and ad hoc collaboration. This financial constraint affects the scale, duration, and monitoring of program activities. Collaboration with Sharia financial institutions, particularly Bank Syariah Indonesia, has been instrumental in program implementation. In contrast, coordination with non-financial stakeholders—such as BAZNAS, the Cooperative Office, and pesantren communities—has not been fully optimized. One KDEKS administrator stated:

> *"We have good ideas, but are often constrained by human resources and costs. Coordination between agencies is sometimes out of sync because each has its own program."*
> *(Interview with KDEKS management, June 2024)*

Public Perceptions of Sharia Finance and KDEKS Programs

The study also examined public and UMKM perceptions of Sharia finance and KDEKS initiatives. Interviews reveal that while most respondents are aware of the existence of Sharia banks, only a small proportion possess a substantive understanding of Sharia contracts and principles. Many respondents continue to perceive Sharia financial products as similar to conventional ones, particularly in terms of installment structures and associated costs.

Awareness of KDEKS programs is largely limited to individuals who have participated in training sessions or received financing assistance. The general public remains relatively unfamiliar with KDEKS activities. Despite these limitations, respondents generally expressed positive attitudes toward Sharia economics and demonstrated a strong interest in receiving further education and improved access to Sharia financial services. Many also valued KDEKS's role as an intermediary, noting that direct access to financial institutions was often perceived as difficult without institutional facilitation.

Technical and Operational Challenges

Beyond programmatic and institutional findings, several technical and operational challenges were identified. These include the absence of an integrated reporting system and a comprehensive beneficiary database, which hampers long-term impact evaluation. Program implementation remains largely ad hoc and insufficiently institutionalized, resulting in weak continuity across annual activities. In addition, limited publication and socialization efforts reduce public awareness of available KDEKS services. Finally, the institution's reliance on academic volunteers and event-based sponsors contributes to unstable organizational capacity and constrains long-term program effectiveness.

DISCUSSION

Islamic Financial Literacy and Behavioral Change among MSMEs

The findings of this study indicate that Islamic financial literacy programs contributed positively to increasing basic awareness and conceptual understanding of Sharia-compliant finance among MSMEs in Bandar Lampung. Participants demonstrated improved recognition of Islamic financial principles and greater confidence in engaging with Islamic financial institutions. However, the results also show that literacy interventions were largely theoretical and insufficiently practice-oriented, limiting their impact on deeper behavioral change. While participants acquired foundational knowledge, many struggled to translate abstract concepts into concrete financial decisions, particularly in managing contracts, cash flow, and long-term planning.

These findings align with previous empirical studies demonstrating that financial literacy improves financial behavior and inclusion but varies significantly in effectiveness depending on program design. Bire et al. (2019) and Rafik & Rahayu (2020) found that financial education enhances financial decision-making and perceived financial security among MSMEs. Similarly, Hasanudin & Panigfat (2023) report that literacy increases access to financial services and supports business growth. However, Wahyuny et al. (2018) caution that literacy gains are often modest when training lacks standardized curricula and contextual relevance, echoing the limitations observed in this study.

From a theoretical perspective, these results reinforce behavioral finance arguments that knowledge alone is insufficient to induce sustained behavioral change without experiential learning. Practically, they suggest that Islamic financial literacy programs should integrate simulations, case studies, and mentoring components. From a policy standpoint, local governments and coordinating institutions should institutionalize standardized, practice-based literacy modules tailored to MSME capacities. Strengthening literacy design is therefore essential to transforming awareness into sustained financial inclusion outcomes.

Sharia-Compliant Financing and MSME Performance Outcomes

This study finds that access to Sharia-compliant financing positively influenced MSME operations by reducing reliance on informal credit and enabling modest business expansion. Financing schemes such as murābaḥah and qard ḥasan were perceived as ethically acceptable and financially accessible, increasing trust in formal institutions. Nevertheless, the results also demonstrate that financing alone did not consistently produce sustainable growth. Many MSMEs faced challenges in financial management and repayment discipline, particularly when financing was not accompanied by adequate guidance or institutional follow-up.

The literature largely supports these findings, indicating a positive relationship between Islamic financing access and MSME performance under specific conditions. Kholidah et al. (2025) show that Islamic fintech lending improves microenterprise performance, while Sabiu & Abduh (2021) report employment growth effects linked to Islamic banking inclusion. Faisol (2017) further emphasizes that trust-based relationships between banks and MSMEs enhance financing effectiveness. However, Habriyanto et al. (2022) highlight that financial literacy significantly moderates financing outcomes, underscoring why financing alone often yields uneven results.

Theoretically, these findings support institutional and financial inclusion theories emphasizing complementary inputs beyond capital. Practically, Islamic financial institutions should integrate financing with advisory services and risk-sharing mechanisms. From a policy perspective, regulators should encourage blended models combining financing, literacy, and digital access. Sustainable MSME development thus requires moving beyond credit provision toward holistic financial inclusion strategies.

Post-Financing Assistance and Capacity-Building Mechanisms

A central finding of this study is the limited availability of post-financing assistance, with only a minority of MSMEs receiving structured mentoring or follow-up support. MSMEs that benefited from post-financing assistance exhibited stronger financial discipline, improved record-keeping, and greater confidence in managing Sharia-compliant contracts. In contrast, unsupported beneficiaries frequently encountered operational difficulties and repayment challenges, limiting the long-term effectiveness of financing interventions.

This pattern is strongly supported by prior studies emphasizing the importance of post-financing assistance in Islamic microfinance. Suryaningrum et al. (2025)

demonstrate that mentoring enhances fund utilization and business sustainability, while Najwa & Rambe (2025) highlight the role of structured mentoring in developing managerial and strategic skills. Florado et al. (2025) further show that mentoring networks foster growth by facilitating knowledge exchange and market access. Similarly, Lut'fiyah et al. (2025) and Rarasati & Amin (2025) confirm that capacity-building significantly strengthens MSME resilience.

Theoretically, these findings reinforce human capital and capability-based approaches to financial inclusion. Practically, they suggest that Islamic microfinance institutions should institutionalize mentoring as a core service rather than an optional add-on. From a policy perspective, coordination bodies should allocate resources specifically for post-financing support. Strengthening capacity-building mechanisms is therefore essential for translating short-term financial access into long-term economic empowerment.

Institutional Coordination and Local Governance Effectiveness

The results reveal that institutional coordination played a meaningful but constrained role in advancing Islamic financial inclusion. The coordination body benefited from formal recognition and facilitated partnerships with Islamic financial institutions, contributing to program legitimacy and outreach. However, limited budgets, fragmented stakeholder engagement, and weak integration with Islamic social finance institutions reduced its overall effectiveness. These constraints restricted the institution's ability to sustain programs and scale impact.

The literature similarly highlights the mixed performance of local coordination bodies in Islamic economic governance. Husain et al. (2025) show that effective governance enhances zakat mobilization and inclusion outcomes, while Bashir et al. (2023) emphasize the role of governance structures in building trust. Conversely, Kakembo et al. (2021) identify regulatory fragmentation and institutional overlap as persistent barriers. Studies by Shah & Kelman (2025) further stress the importance of professional capacity and data governance.

Theoretically, these findings align with institutional and governance theories emphasizing legitimacy, capacity, and coordination. Practically, they underscore the need for clearer mandates, dedicated budgets, and integrated stakeholder platforms. From a policy perspective, strengthening local coordination bodies requires regulatory harmonization and performance-based institutional support. Effective governance thus remains a prerequisite for sustainable Islamic financial inclusion.

Monitoring, Evaluation, and Evidence-Based Policy Learning

This study identifies the absence of a comprehensive monitoring and evaluation (M&E) framework as a critical weakness affecting program learning and accountability. Program outcomes were documented inconsistently, limiting the ability to assess long-term impact or refine interventions based on evidence. As a result, evaluations relied heavily on stakeholder perceptions rather than systematic performance indicators, constraining institutional learning and policy feedback mechanisms.

These findings are consistent with the literature emphasizing the centrality of robust M&E systems. Khairunnisa & Rusydiana (2024) stress the importance of multidimensional indicators, while Muneer & Khan (2019) advocate combining quantitative and qualitative assessments. Fadila et al. (2025) highlight participatory M&E approaches, and Ahmad et al. (2020) emphasize adaptive frameworks responsive to contextual change. Conversely, Abdulkarim & Ali (2019) show that weak M&E undermines continuous improvement and policy effectiveness.

From a theoretical standpoint, these results reinforce learning-oriented governance models. Practically, they indicate the need for standardized, integrated M&E systems supported by digital data management. From a policy perspective, strengthening M&E is essential for evidence-based decision-making and equitable resource allocation. This study thus contributes to advancing policy learning in Islamic financial inclusion governance.

CONCLUSION

This study set out to evaluate the effectiveness of a city-level Islamic economic coordination program in promoting Islamic financial inclusion, with particular attention to financial literacy, access to Sharia-compliant financing, MSME empowerment, and institutional governance. The findings indicate that the program generated meaningful short-term outcomes, including increased awareness of Islamic finance, expanded access to Sharia-compliant financing, and the initiation of MSME clustering initiatives. However, these achievements were uneven and constrained by limited post-financing assistance, weak institutional capacity, fragmented coordination, and the absence of a systematic monitoring and evaluation framework.

The discussion demonstrates that Islamic financial inclusion cannot be reduced to access to financing alone. Instead, its effectiveness depends on the interaction between financial literacy, continuous capacity-building, institutional coordination, and governance quality. While Sharia-compliant financing fostered trust and reduced reliance on informal credit, sustainable MSME growth was more likely when financing was accompanied by mentoring and follow-up support. Institutional findings further reveal that coordination bodies play a critical enabling role but require stronger mandates, resources, and data systems to function effectively.

This study contributes to the existing body of knowledge by providing empirical evidence from a subnational context that remains underrepresented in the literature on Islamic financial inclusion. It advances understanding of how local governance structures shape inclusion outcomes and highlights the importance of effectiveness evaluation frameworks for Islamic economic institutions. By bridging institutional analysis with MSME-level outcomes, the study offers both theoretical refinement and practical insights for policymakers seeking to design more inclusive, sustainable, and evidence-based Islamic financial inclusion initiatives.

Limitations of the Study

Despite its contributions, this study has several limitations that should be acknowledged. First, the research employed a qualitative descriptive approach, which, while suitable for capturing institutional dynamics and stakeholder perceptions, limits the ability to generalize findings beyond the specific context of Bandar Lampung City. The absence of quantitative performance indicators and longitudinal data restricts the capacity to measure causal relationships or to assess long-term socioeconomic impacts of the program on MSMEs and household welfare.

Second, the study relied on purposively selected informants and institutional documents, which may introduce subjectivity and potential bias. Although data triangulation was applied, findings remain influenced by the perspectives and experiences of key stakeholders involved in program implementation. Additionally, incomplete administrative records and fragmented data systems constrained the depth of analysis, particularly regarding financial performance, repayment behavior, and post-financing business trajectories. These limitations suggest that the results should be interpreted as context-specific insights rather than definitive evaluations of Islamic financial inclusion effectiveness across broader settings.

Recommendations for Future Research

Future research could build on this study by adopting mixed-methods or quantitative designs to complement qualitative insights with measurable indicators of financial inclusion, MSME performance, and poverty reduction. Longitudinal studies would be particularly valuable in assessing the sustainability of Islamic financial inclusion outcomes and understanding how financial literacy, financing, and capacity-building interact over time. Comparative studies across cities or regions could also help identify contextual factors that shape the effectiveness of Islamic economic coordination bodies.

Further research should also explore underexamined dimensions such as gender dynamics, digital Islamic finance adoption, and the integration of Islamic social finance instruments—zakat and waqf—into formal financial inclusion strategies. In addition, developing and testing standardized monitoring and evaluation frameworks tailored to Islamic financial inclusion programs would contribute significantly to evidence-based policymaking. By addressing these areas, future studies can deepen theoretical understanding and provide more robust guidance for designing inclusive and resilient Islamic financial systems at the local and national levels.

Author Contributions

Conceptualization	U.A. & M.	Resources	U.A. & M.
Data curation	U.A. & M.	Software	U.A. & M.
Formal analysis	U.A. & M.	Supervision	U.A. & M.
Funding acquisition	U.A. & M.	Validation	U.A. & M.
Investigation	U.A. & M.	Visualization	U.A. & M.
Methodology	U.A. & M.	Writing – original draft	U.A. & M.

Project administration	U.A. & M.	Writing – review & editing	U.A. & M.

All authors have read and agreed to the published version of the manuscript.

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Informed Consent Statement

Informed consent was obtained before respondents answered the interview for this study.

Data Availability Statement

The data presented in this study are available on request from the corresponding author.

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Conflicts of Interest

The authors declare no conflicts of interest.

Declaration of Generative AI and AI-Assisted Technologies in the Writing Process

During the preparation of this work, the authors used ChatGPT, DeepL, Grammarly, and PaperPal to translate from Bahasa Indonesia into American English and improve the clarity of the language and readability of the article. After using these tools, the authors reviewed and edited the content as needed and took full responsibility for the content of the published article.

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