

Can Islamic Banking Drive SDGs Achievement within Minority Muslim Communities? A SWOT-based Analysis from Bali, Indonesia

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Abstract

Purpose – This study aims to investigate the strategic role of Islamic banking in advancing Sustainable Development Goals (SDGs), specifically No Poverty (1), Decent Work and Economic Growth (8), and Reduced Inequalities (10), within the unique socio-religious landscape of a Muslim minority in Bali.

Methodology – Employing an exploratory-strategic qualitative design, this research utilizes semi-structured interviews with nine key informants, including Sharia banking practitioners, cross-faith customers (Muslim and non-Muslim), and academics, triangulated with field observations and industry reports. Data were analyzed through a systematic SWOT framework integrated with Internal-External Factor Analysis (IFAS/EFAS) and Grand Strategy matrices.

Findings – The findings reveal that while Islamic banking possesses robust ethical-inclusive foundations aligned with SDG principles, its impact is hindered by systemic constraints: suboptimal human resource capacity and low financial literacy. Externally, the burgeoning halal tourism sector in Bali presents a significant strategic opportunity, yet remains contested by conventional banking dominance and persistent social stigma. Moving beyond descriptive reporting, this study contributes a novel strategic model for Islamic financial inclusion in non-Muslim majority regions, shifting the discourse from purely religious compliance to socio-economic resilience.

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Implication – *The results imply that achieving SDGs in minority contexts requires a transition toward digital transformation and cross-cultural financial literacy. This research offers a replicable strategic roadmap for policymakers to optimize Islamic finance as a catalyst for inclusive regional growth.*

Keywords: *Islamic banking; sustainable development goals; minority Muslim communities; SWOT analysis.*

1. INTRODUCTION

The As business entity established within the ambit of Shariah (Islamic law), Islamic banks are expected to be guided by the Islamic economic objectives to ensure that wealth is fairly circulated among as many hands as possible without causing any harm to those who acquired it lawfully (Alam Choudhury M, Wajdi Dusuki A, 2008). Islamic banking provides microfinance and other financial products designed to empower low-income individuals, helping them start or grow small businesses, thereby contributing to poverty reduction as a form of poverty alleviation (SDG 1) (Alam Choudhury M, Wajdi Dusuki A, 2008). Furthermore, Islamic banking encourages job creation and inclusive economic growth by supporting Micro, Small, and Medium Enterprises (MSMEs) through productive financing as an effort to realize decent work and economic growth (SDG 8) (Trimulato et al., 2021). Islamic banking contributes significantly to reducing economic inequality (SDG 10) through the principle of justice that ensures a more equitable distribution of wealth in society by providing inclusive financing, especially to low-income groups and Micro, Small, and Medium Enterprises (MSMEs) (Asih et al., 2024).

Islamic banking has great potential to contribute to realizing the SDGs. However, Islamic banking also faces major challenges in areas with Muslim minority communities, one of which is the lack of public understanding of sharia principles and tight competition with conventional financial services. In Indonesia, taking into account also its endowment and potential economic resources, the Islamic banking industry was expected to take on an important role in facilitating more financial resources and to contribute to the internationalization of the Islamic mode of financing (Suzuki, Y., & Pramono, S., 2020). To meet these expectations, the development of Islamic banking in Indonesia needs to be extended to all regions, including areas with Muslim minority populations. One such region is Bali Province, which presents a distinctive context for the expansion of Islamic banking.

Although the amount of information regarding Islamic banking continues to grow in Muslim countries, relatively little is known about its basic terminology and application in countries with Muslims as a minority population (Islam JU, Rahman Z, 2017). In Bali Province, as a region with a Hindu majority population, this challenge is increasingly felt due to the lack of public literacy regarding sharia banking products and services (see Table 1). In addition, conventional banking in Bali is well-established and strong so that it is easily accessible to the general public. To face this challenge, a good strategy is needed to foster the interest of the Balinese people in Islamic banking. This situation poses a unique challenge, as customers' levels of understanding and awareness, together with their evaluations and perceptions of the characteristics of Islamic banking, play a pivotal role in shaping the adoption of Islamic banking products and services (Rassool NH, 2018).

Table 1. Population of Bali based on Religion

No.	Religion	Population	Percentage (%)
1.	Hindu	3.247.283	84,46
2.	Islam	520.244	13,97
3.	Protestant	31.397	0,8
4.	Catholic	64.454	0,16
5.	Buddhist	21.156	0,5
6.	Confucian	427	0,01
7.	Other	283	0

Source: BPS-Statistics Indonesia (2023)

Nevertheless, the role of Islamic banking within Muslim-minority communities is not insignificant, as it not only provides financial services that comply with sharia principles, but also becomes a tool for economic empowerment that can improve community welfare, especially through support for micro, small and medium enterprises (MSMEs) and strengthening financial inclusion. While the literature on Islamic banking is extensive, studies focusing on minority environments remain fragmented. Wilson (2000) highlighted regulatory barriers in the UK context, yet his study overlooked the operational tactics necessary to engage a multi-faith customer base. Similarly, Malung & Makhrus (2022) identified systemic problems in Thailand's Islamic banking sector but failed to propose actionable strategic frameworks to mitigate those challenges. Within the Indonesian context, Mursalin & Muthoifin (2024) explored Islamic banking in Kupang; however, their analysis remained localized and descriptive, lacking a long-term strategic outlook or a connection to global development benchmarks. Consequently, there is a significant theoretical and empirical void regarding how Islamic banking can systematically align its strategic position with the Sustainable Development Goals (SDGs) in a religiously pluralistic setting like Bali.

The central problem addressed in this study is the lack of a comprehensive strategy that enables Islamic banking to thrive in non-Muslim majority areas while effectively contributing to global sustainability agendas. To bridge this gap, the study first evaluates how the internal strengths and weaknesses, coupled with external opportunities and threats, define the current landscape of Islamic banking in the specific socio-religious context of Bali. This foundational analysis serves as the basis for developing a robust strategic framework designed to optimize the growth of Islamic banking within Muslim-minority environments. Ultimately, the inquiry culminates in an assessment of the extent to which such a strategic model can accelerate the achievement of the Sustainable Development Goals (SDGs), specifically focusing on the alleviation of poverty (Goal 1), the promotion of decent work and economic growth (Goal 8), and the reduction of inequalities (Goal 10).

This research offers significant contributions across two dimensions. Theoretically, it expands the Islamic economic framework by integrating SWOT-based strategic analysis with the SDGs, shifting the discourse from a purely normative "compliance" view to a "functional-strategic" model for minority contexts. This provides a new conceptual lens for understanding financial inclusion in multi-cultural societies. Practically, the findings serve as a strategic roadmap for regulators and practitioners to formulate inclusive policies. By emphasizing digital transformation and cross-cultural financial literacy, this study provides actionable insights to improve institutional competitiveness and social impact in diverse economic ecosystems.

2. LITERATURE REVIEW

2.1 Islamic Banking in Muslim Minority Regions and its Contribution to the SDGs

The core principles of Islamic banking, which prohibit *riba* (interest) and promote risk-sharing, possess a fundamental alignment with the global Sustainable Development Goals (SDGs) agenda. According to Ahmed et al. (2015), Islamic finance has significant potential to bridge the SDG financing gap through instruments focused on real assets and social justice, particularly in efforts toward poverty alleviation (SDG 1). In line with this, Umar et al. (2021) emphasize that Islamic banking contributes to reducing inequality (SDG 10) through distribution mechanisms that are more inclusive for lower-income groups. Meanwhile, Jan et al. (2021) argue that in the current digital era, Islamic banking can accelerate the achievement of SDG 8 regarding decent work and economic growth by providing more ethical access to capital for Micro, Small, and Medium Enterprises (MSMEs).

Based on the literature review above, the researcher views Islamic banking as playing a role that transcends mere commercial functions, it serves as an instrument of social transformation capable of translating ethical values into measurable development practices. The researcher posits that the unique characteristics of Islamic banking, particularly regarding inclusivity and distributive justice, provide a solution to the challenges of economic disparity that often remain unaddressed by conventional financial systems. Consequently, within the context of minority communities, the researcher argues that strengthening this sector is not merely about fulfilling religious requirements but constitutes a rational strategy for comprehensively achieving SDG targets. The successful attainment of SDGs 1, 8, and 10 in such regions will depend heavily on the effective implementation of adaptive and innovative Islamic financial instruments.

Operating Islamic banking in regions where Muslims are a minority, such as Bali or various Western contexts, necessitates unique adaptation strategies. Biancone & Radwan (2019) found that in non-Muslim areas, Islamic finance is often positioned as "ethical finance" to attract customers from diverse religious backgrounds while simultaneously overcoming social stigma. However, the growth of this sector faces significant institutional hurdles, Belouafi et al. (2015) highlight regulatory challenges and the lack of a supportive legal infrastructure in minority regions as primary barriers to the expansion of Islamic banks. Furthermore, Rabbani et al. (2021) emphasize that in minority environments, financial literacy acts as a decisive factor, without proper education and socialization, Islamic banking struggles to compete against deeply entrenched and dominant conventional systems.

Based on these findings, the researcher concludes that the success of Islamic banking in minority contexts is heavily dependent on its ability to redefine its identity, moving from a religiously exclusive institution to a universal ethical alternative. The researcher observes that in regions like Bali, "ethical" branding is not merely a marketing tactic but a strategic necessity to bridge the cognitive gap between the majority population and Sharia-based services. Moreover, the researcher posits that without proactive government intervention to harmonize regulations and implement intensive public literacy campaigns, Islamic banking will remain a niche market. Therefore, a dual approach, combining legal advocacy with inclusive socialization is essential to transform existing threats into competitive opportunities within a pluralistic economy.

2.2 SDGs Theoretical Framework: The Nexus of Institutional Theory and Financial Inclusion

The strategic positioning of Islamic banking in a Muslim-minority context, such as Bali, requires a multi-dimensional theoretical lens. This study integrates Institutional Theory and Financial Inclusion Theory to map the systemic challenges and potential pathways for Sharia-compliant financial institutions. According to Scott's (2014) institutional framework, organizations operate within three pillars that provide legitimacy and stability: regulative, normative, and cultural-cognitive. In the context of Bali, Islamic banks operate under a dual banking system. However, "institutional voids" often emerge when local implementation of Sharia-specific regulations lacks the robustness found in majority-Muslim provinces. This creates a reliance on central authority (OJK) which may not always account for the unique socio-economic friction in a Hindu-majority landscape.

In regions where Muslims are a minority, Islamic financial institutions frequently encounter "institutional voids," characterized by a lack of specialized regulatory frameworks that cater to Sharia-compliant instruments, alongside a cognitive distance where the broader public remains unfamiliar with Islamic financial logic. Consequently, these institutions must navigate the tension between maintaining their religious identity and seeking legitimacy within a dominant conventional financial ecosystem. The shared understanding of "banking" in Bali is predominantly conventional. Islamic banks face the challenge of "cognitive dissonance" where the public—both Muslim and non-Muslim—may perceive Sharia products as exclusive or overly complex, thus creating a barrier to institutional adoption.

This pursuit of legitimacy is inextricably linked to Financial Inclusion Theory, which emphasizes the necessity of providing equitable and barrier-free access to formal financial services for all societal segments, particularly those historically underserved or self-excluded due to religious or ethical considerations. Financial Inclusion Theory posits that economic development is predicated on the availability, accessibility, and usage of formal financial services (World Bank, 2022). In a minority context, financial inclusion is not merely a matter of opening branches, it is about addressing "self-exclusion" caused by religious or ethical preferences. Moreover, Integrating ISF (Zakat, Infaq, Sadaqah, and Waqf) into the banking model enhances the depth of financial inclusion. By targeting the unbanked and underbanked MSMEs in Bali, Islamic banks fulfill the "inclusive" mandate of the Sustainable Development Goals (SDGs), particularly in reducing poverty (SDG 1) and inequality (SDG 10).

By synthesizing these two perspectives, this study views Islamic banking not merely as a commercial entity but as an institutional actor that addresses systemic exclusion. Through the mobilization of Islamic social finance instruments, such as Zakat, Infaq, and Waqf, these banks facilitate a deeper level of financial penetration that aligns with the Sustainable Development Goals (SDGs), specifically in alleviating poverty and reducing economic inequalities. When an institution successfully navigates the regulative and cognitive barriers, it can more effectively reach underserved segments, thereby accelerating the achievement of the SDGs. This study proposes that a SWOT-based strategic alignment can bridge the gap between these institutional pressures and the goal of inclusive growth. Ultimately, the successful integration of Islamic banking in a minority landscape depends on its ability to bridge institutional gaps through a strategic alignment that resonates with both local normative values and global inclusive finance mandates.

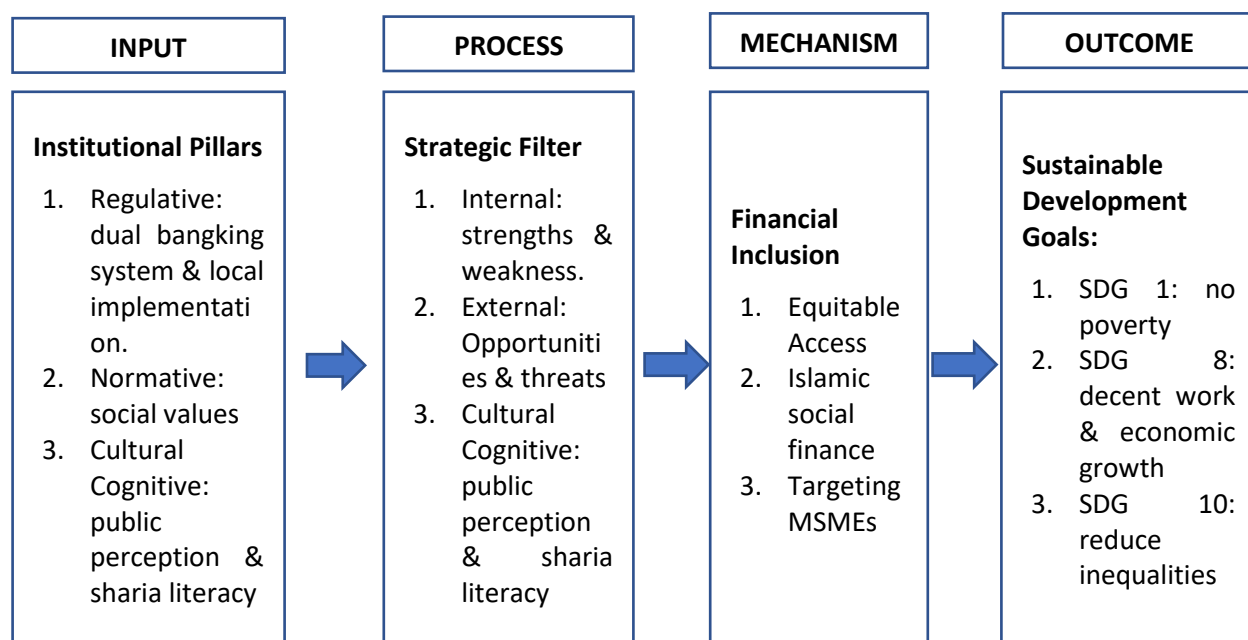


Figure 1. Conceptual Framework

Figure 1 depicts the conceptual framework guiding this research, synthesized from the intersection of Institutional Theory and Financial Inclusion Theory. The model posits that Islamic banking operations in a minority setting are not isolated commercial activities but are deeply embedded within an institutional matrix of regulatory requirements and socio-cultural perceptions. By utilizing a SWOT-integrated strategic approach, these institutions can address institutional voids and cognitive barriers, transforming them into opportunities for broader financial penetration. This mechanism facilitates a shift from basic financial access to meaningful financial inclusion, which serves as the primary driver for achieving the localized targets of SDG 1, 8, and 10. Thus, the model provides a holistic view of how strategic alignment within a challenging institutional landscape can lead to sustainable socio-economic impact

3. METHODOLOGY

Figure 2. uses a descriptive qualitative approach to deeply understand the phenomena and dynamics of Islamic banking development in Muslim-minority areas, particularly in Bali Province. This approach was chosen because it captures the social context, perceptions, and experiences of stakeholders that cannot be explained through quantitative data. This research combines primary and secondary data to gain a comprehensive understanding. Primary data was obtained through in-depth interviews and direct observation at several Islamic banking locations in Bali, while secondary data came from literature studies of previous research, banking industry reports, OJK and BPS statistical data, policy documents, SDGs publications, and other supporting sources.

Informants were selected using a purposive sampling technique to ensure the depth and relevance of the information. A total of nine respondents were selected: (1) three managers or key employees of Bank Syariah Indonesia's Bali unit, (2) four Muslim and non-Muslim customers who use Islamic banking services, and (3) two academics familiar with Islamic economic development

in Bali. This selection was intended to capture the diversity of perspectives among industry players, service users, and policy observers.

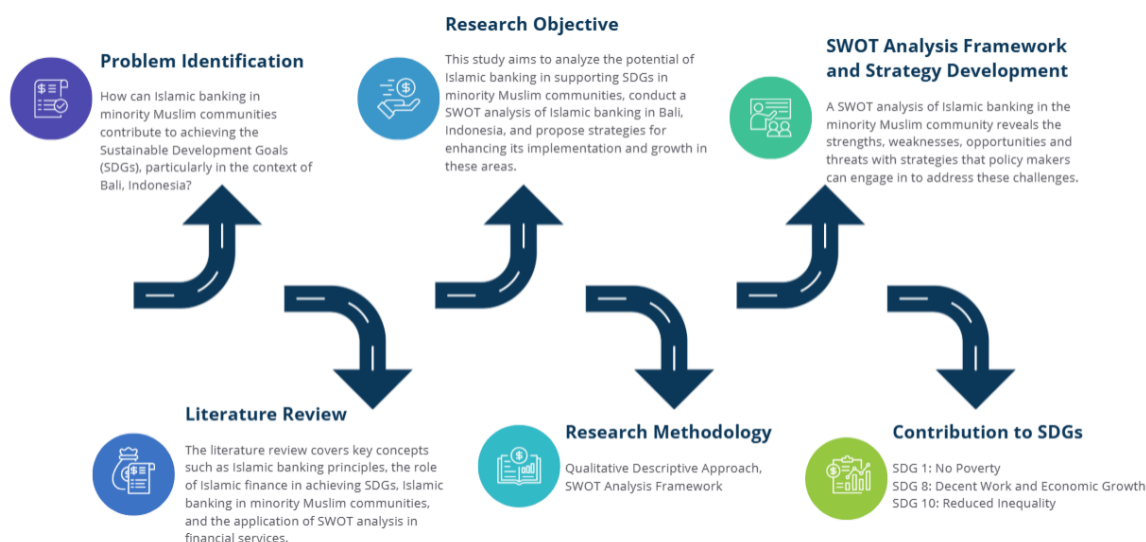


Figure 2: Research Framework

Data collection was conducted through three main techniques: in-depth interviews, field observation, and documentation. Interviews were semi-structured using flexible question guides, allowing respondents to express their views naturally. Topics covered public perceptions of Islamic banking, institutional marketing strategies, operational challenges, development opportunities, and its relevance to achieving the SDGs. Interviews were recorded (with respondents' permission) and transcribed verbatim. The interview protocol involved explaining the research objectives, providing informed consent, ensuring data confidentiality, and member checking, which involved returning a summary of the interview results to respondents to ensure the accuracy of the information. Observation techniques included observing Islamic banking service activities, location characteristics, staff interactions with customers, and the level of service visibility in non-Muslim communities. Documentation was used to validate field data and supplement information related to Islamic banking developments.

Data analysis was conducted using a SWOT analysis to identify strengths, weaknesses, opportunities, and threats in the development of Islamic banking in Bali. Who emphasized that this method is effective in formulating strategies because it systematically presents internal and external factors (Rangkuti, 2006). Furthermore, this method has various advantages, one of which is its ability to identify each strength and weakness of an institution. This is very useful for reducing the impact or negative consequences that may occur in the future (Coman & Ronen, 2009).

The SWOT analysis was conducted through the preparation of three matrices: the IFAS (Internal Strategic Factors Analysis Summary) Matrix, the EFAS (External Strategic Factors Analysis Summary) Matrix, and the Grand Strategy Matrix. The preparation of the IFAS and EFAS involves several steps. First, researchers identified internal factors (strengths–weaknesses) and external factors (opportunities–threats) based on interviews, observations, and literature. Second, source triangulation was conducted to ensure that each factor was supported by at least two types of data. Third, weighting (0–1) was conducted through small group discussions (peer

review) involving two Islamic economics academics and one Islamic banking practitioner to minimize subjectivity. Fourth, each factor was assigned a rating (1–4), with 1 indicating a very weak condition or severe threat, while 4 indicated a very strong condition or high opportunity. The final score was obtained by multiplying the weight and rating, then mapped onto the SWOT Matrix and Grand Strategy Matrix to determine the strategic position of Islamic banking in Bali.

To maintain methodological rigor, this study employed several validation procedures. Method triangulation was carried out by combining interviews, observations, and documentation. Source triangulation was conducted by comparing data from bank actors, customers, and official documents. Member checking was used to verify the interview findings, while peer debriefing was conducted by asking two Islamic economics experts to review the SWOT analysis interpretation.

Referring to Kosidin & Wibowo (2022), the steps of the SWOT analysis in this study include: (1) identifying and formulating the problem, (2) collecting data through literature, observation, and interviews, (3) processing the data into internal and external factors, (4) weighting and scoring the IFAS-EFAS matrix and compiling a SWOT matrix table, and (5) formulating development strategies and recommendations relevant to the context of Islamic banking in Muslim-minority areas and its contribution to the SDGs.

4. RESULTS AND DISCUSSION

4.1. Internal and External Factors

Internal factors are strengths and weaknesses that come from within the environment of Bank Syariah Indonesia in Bali. While external factors are opportunities and threats that come from outside the environment of Bank Syariah Indonesia in Bali. The strategic position of Islamic banking in Bali is characterized by a complex interplay between internal institutional capabilities and external environmental pressures, which can be analytically interpreted through the lenses of Institutional Theory and Financial Inclusion Theory. The internal strengths of Islamic financial institutions in this region, most notably the principles of justice and risk-sharing, synergistic relations with local government, and innovative product offerings for MSMEs, represent a form of "normative legitimacy." By emphasizing ethical foundations over purely religious branding, these institutions attempt to align themselves with the broader social values of the Balinese community, thereby addressing the "regulative" and "normative" pillars of institutional stability.

However, these strengths are persistently challenged by significant internal weaknesses, such as a deficit in specialized Sharia-compliant human capital and infrastructure gaps in "blank spot" areas. From a theoretical perspective, these weaknesses constitute "institutional voids" that hinder the banks' ability to achieve the "cultural-cognitive" legitimacy required to compete effectively with the entrenched dominance of conventional banking systems. The external environment further complicates this trajectory, presenting opportunities that are deeply rooted in global and national shifts toward sustainable finance and halal tourism. According to Financial Inclusion Theory, these opportunities provide a vital pathway for Islamic banking to drive the Sustainable Development Goals (SDGs), particularly in providing equitable financial access to marginalized economic segments and local Muslim communities.

Nevertheless, the realization of this inclusive potential faces formidable threats, including a prevailing negative stigma and a local culture that often perceives Sharia products as exclusive or less competitive regarding interest rates. These threats manifest as "cognitive dissonance" within the non-Muslim majority, where customer preferences remain tethered to conventional norms.

Consequently, the strategic orientation for Islamic banking in Bali must move beyond a descriptive Sharia identity toward an analytical, impact-driven model. By leveraging government support for the Sharia economy to mitigate economic fluctuations and institutional resistance, these banks can transform their ethical-inclusive foundations into a robust mechanism for regional economic resilience and broader financial penetration.

4.2. Internal Strategy Factors Analysis Summary (IFAS)

The Internal Strategy Factors Analysis Summary (IFAS) serves as a critical diagnostic tool to evaluate the internal operational environment, facilitating the systematic identification of an organization's core strengths and weaknesses (Mutiara, 2021). In this study, the IFAS factors were derived from a synthesis of primary data collected through semi-structured interviews and observations with key stakeholders at Bank Syariah Indonesia in Bali. To ensure methodological rigor and minimize individual researcher bias, the weighting and scoring process was conducted through a mechanism during indepth interview involving banking practitioners and Sharia experts. Based on the results of observations and interviews with Human Resources and customers of Bank Syariah Indonesia in Bali, there are several internal factors consisting of the strengths and weaknesses of Islamic banking in Muslim minority areas, then the following weighting and scoring are carried out:

Table 3. IFAS Matrix

IFAS	Strengths	Weight	Rating 1	Rating 2	Rating 3	Average	Score
1	The principle of justice and risk sharing	0.150	4	4	4	4.00	0.600
2	Government regulations on Islamic Banking	0.120	4	3	4	3.67	0.440
3	Innovation of sharia products and services that support MSMEs	0.100	4	3	3	3.33	0.333
4	Synergy with government and local institutions	0.080	4	3	3	3.33	0.267
5	Good facilities and services	0.050	3	2	3	2.67	0.133
Strengths Total							1.773
IFAS	Weakness						
1	Lack of human resources with special expertise in sharia	0.200	4	4	3	3.67	0.733
2	Limited infrastructure and	0.100	2	3	2	2.33	0.233

	networks (blankspot areas)						
3	Lack of socialization and education related to sharia services	0.070	1	2	2	1.67	0.117
4	Digital technology that is not yet optimal	0.050	3	3	2	2.67	0.133
5	Low competitiveness compared to conventional banks	0.080	2	3	2	2.33	0.187
Weakness Total							1.403
IFAS Total		1.000	31.00	30.00	28.00	29.67	3.177

Internal Strategy Factors Analysis Summary (IFAS) depicted in Table 3 provides a quantified evaluation of the institutional environment of Islamic banking in Bali, yielding a total weighted score of 3.177. This score, being above the median of 2.50, indicates a relatively strong internal position, suggesting that the institutions are effectively leveraging their core competencies to navigate the challenges of a minority context. The most significant strength identified is the principle of justice and risk-sharing, which carries the highest weighted score (0.600) with a consistent expert rating of 4.00. From the lens of Institutional Theory, this reflects a robust "normative pillar," where the bank's ethical foundations serve as a primary source of legitimacy that differentiates it from conventional competitors. Furthermore, government regulation and regulatory support (score: 0.440) act as a crucial "regulative pillar," providing the necessary legal framework to sustain Sharia-compliant operations in a predominantly non-Muslim landscape.

However, the analysis also exposes critical "institutional voids" that manifest as strategic weaknesses. The lack of human resources with specialized Sharia expertise emerged as the most pressing internal threat, carrying the highest weight (0.200) and a high impact score (0.733). This resource deficit signifies a "cultural-cognitive" barrier; without qualified personnel who can bridge the gap between Sharia principles and local economic practices, the bank's ability to drive meaningful Financial Inclusion remains constrained. Additionally, limited infrastructure in "blank spot" areas and suboptimal digital technology (totaling a score of 0.366) reflect physical institutional gaps that hinder equitable access to finance. The relatively low competitive standing compared to conventional banks (score: 0.187) suggests that while the bank's ethical identity is a strength, its operational efficiency has not yet achieved the scale required to disrupt the established conventional hegemony. Consequently, the strategic priority must focus on human capital development and digital transformation to convert these institutional weaknesses into sustainable competitive advantages.

4.3. External Strategy Factors Analysis Summary (EFAS)

The External Strategy Factors Analysis Summary (EFAS) serves as a diagnostic framework to evaluate the macro-environmental conditions, enabling the organization to identify and prioritize external opportunities and threats (Maula, 2024). In the context of this study, the external variables were identified through a systematic triangulation of field observations, regulatory documentation, and in-depth interviews with diverse stakeholders, including non-Muslim customers and financial regulators in Bali. Following the same rigorous protocol as the IFAS, the weighting and rating for each external factor were established through a consensus-building process during a interview. This approach ensures that the scores reflect a collective expert judgment on the relative impact of environmental shifts on Islamic banking operations.

Table 4. EFAS Matrix

EFAS	Opportunities	Weight	Rating 1	Rating 2	Rating 3	Average	Score
1	Halal tourism growth	0.125	4	3	3	3.33	0.417
2	Global awareness of sustainable finance	0.100	2	1	1	1.33	0.133
3	Government support for sharia economy	0.100	3	4	3	3.33	0.333
4	Development of local Muslim communities	0.100	3	4	3	3.33	0.333
5	Sharia investment potential	0.075	3	2	2	2.33	0.175
	Opportunities Total						1.392
EFAS	Threats						
1	Conventional banking dominance in Muslim minority areas	0.125	4	4	4	4.00	0.500
2	Cultural and social factors influencing local community perceptions	0.100	4	3	4	3.67	0.367
3	Customer preferences (choosing low interest rates)	0.100	4	4	4	4.00	0.400
4	Negative stigma against Islamic banks	0.100	2	2	2	2.00	0.200
5	Economic fluctuations and recession	0.075	3	2	2	2.33	0.175
	Threats Total						1.642
	EFAS Total	1.000	32.00	29.00	28.00	29.67	3.033

The External Strategy Factors Analysis Summary (EFAS) presented in Table 4 evaluates the environmental dynamics influencing Islamic banking in Bali, resulting in a total weighted score of 3.033. This score signifies that the institution is in a favorable position to respond to external factors, effectively capitalizing on opportunities while mitigating potential threats. The most significant opportunity identified is the growth of halal tourism, which received the highest weighted score (0.417). From the perspective of Financial Inclusion Theory, this growth serves as a strategic entry point for Islamic banks to provide Sharia-compliant financial solutions to a

broader ecosystem, including MSMEs and the hospitality sector. Furthermore, the robust government support for the Sharia economy and the development of local Muslim communities (both scoring 0.333) reinforce the "regulative pillar" of Institutional Theory, creating a conducive environment for institutional expansion in a minority context.

However, the external landscape is characterized by formidable "institutional resistance." The dominance of conventional banking emerged as the most significant threat, carrying the highest expert rating of 4.00 and a weighted score of 0.500. This dominance reflects a deeply entrenched "cultural-cognitive" pillar where conventional financial norms are the default preference for the majority of the population. This is compounded by the threat of customer preferences for low interest rates (score: 0.400) and cultural/social factors influencing local perceptions (score: 0.367). These factors create a "legitimacy gap," where Islamic banks must compete not only on service quality but also against established cognitive biases. While negative stigma remains a factor (score: 0.200), its lower relative score suggests that the primary challenge is not active opposition, but rather the "isomorphic pressure" to match the convenience and pricing of conventional giants. Consequently, to drive SDG 8 (Decent Work and Economic Growth), Islamic banks must strategically align their ethical value proposition with the specific needs of the Balinese market to overcome these systemic institutional barriers.

4.4. IE (Internal-External) Matrix Analysis

The Internal-External (IE) Matrix serves as a critical analytical tool to determine the strategic intersection of internal capabilities and external environmental dynamics, thereby facilitating the selection of optimal strategic alternatives (Setiana, 2022). Based on the synthesized IFAS and EFAS scores derived in this study (3.177 and 3.033, respectively), Islamic banking in Bali is positioned within Cell I. According to strategic management theory, this placement dictates a "Grow and Build" orientation, emphasizing aggressive expansion through increased resource allocation and market capitalization (Elina & Tullah, 2019). In the specific context of a Muslim minority landscape, this position indicates that the institution possesses sufficient internal resilience to overcome institutional barriers and capitalize on untapped market opportunities.

Table 5. IE Matrix

EFAS-IFAS	High (3,0-4,0)	Medium (2,0-2,99)	Low (1,0-1,99)
High (3,0-4,0)	I	I	III
Medium (2,0-2,99)	IV	V	VI
Low (1,0-1,99)	VII	VIII	IX

To operationalize the "Grow and Build" strategy, this study proposes three integrated trajectories: market penetration, market development, and product innovation. Market penetration is essential to address the "cognitive distance" identified in the literature, which can be achieved through enhanced financial literacy programs and digital marketing aimed at shifting public perception from religious exclusivity to universal ethical finance (Umar et al., 2021). Furthermore,

market development strategies should target high-growth sectors such as halal tourism and MSMEs, which are currently underserved by conventional institutions (Trimulato et al., 2021). Finally, product development must focus on creating Sharia-compliant instruments that are tailored to the local Balinese socio-economic context, such as micro-financing schemes that integrate local wisdom with sustainable finance principles (Shahimi & Zahari, 2025). By implementing these strategies, Islamic banking can move beyond its current niche status, effectively scaling its impact to contribute more substantially to SDG 8 (Decent Work and Economic Growth) and SDG 10 (Reduced Inequalities) within the region.

4.5. Grand Strategy Matrix Analysis

The Grand Strategy Matrix is an analytical framework designed to formulate strategic alternatives by positioning an organization into one of four distinct quadrants based on its competitive position and market growth rate (Wardhana, 2021). To determine the coordinates for Islamic banking in Bali, the differentials between internal factors (Strengths-Weaknesses) and external factors (Opportunities-Threats) are calculated. The X-axis, representing the internal strategic position, yields a positive value of 0.37 (1.773 - 1.403), while the Y-axis, representing the external environmental position, results in a negative value of -0.25 (1.392 - 1.642).

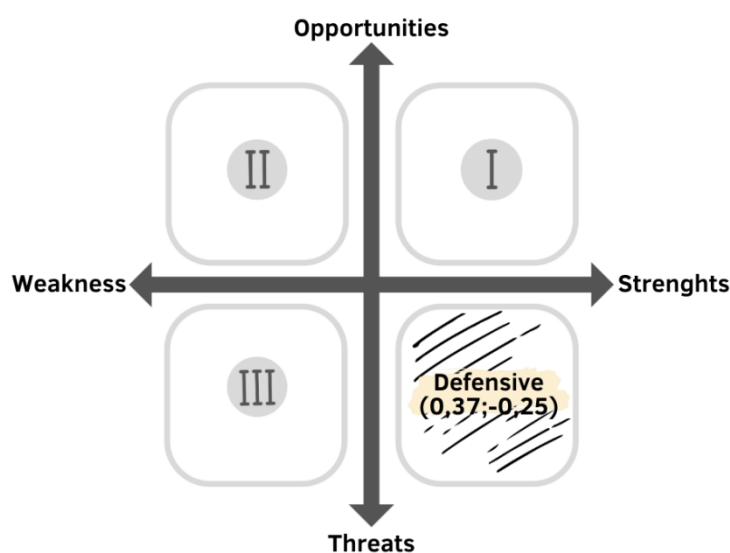


Figure 2: Grand Strategy Matrix

As illustrated in Figure 2, the intersection of these coordinates places the institution in Quadrant IV. This position indicates that while Islamic banking in Bali possesses a strong competitive position and internal resilience, it operates within an environment characterized by slow market growth or significant institutional resistance. From an Institutional Theory perspective, this quadrant reflects a "legitimacy paradox" where the bank has successfully built normative strengths but is constrained by the cultural-cognitive dominance of conventional banking systems and low Sharia literacy (Suzuki & Pramono, 2020). To navigate this quadrant, the recommended strategic orientation involves concentric or conglomerate diversification and the formation of joint ventures.

		2. Developing digital technology to expand access and reach of sharia services in blank spot areas (W2, W4, O2, O3)
<p>Threats (T):</p> <ol style="list-style-type: none"> 1. Dominance of conventional banking in Muslim minority areas 2. Cultural and social factors that influence local community perceptions 3. Customer preferences (choosing low interest rates) 4. Negative stigma towards Islamic banks 5. Economic fluctuations and recession 	<p>S-T Strategy:</p> <ol style="list-style-type: none"> 1. Improving the strengthening of sharia principles and governance to overcome the negative stigma against sharia banks (S3, S4, T1, T4) 2. Developing innovations in sharia products and services to attract customers who choose low interest rates (S2, S5, T3, T5) 	<p>W-T Strategy:</p> <ol style="list-style-type: none"> 1. Increase socialization and education of sharia services to overcome negative stigma and cultural factors that influence local community perceptions (W1, W3, T2, T4) 2. Increase the use of digital technology to expand service access and increase competitiveness (W4, W5, T1, T5)

Based on the synthesis of the SWOT Matrix, several strategic alternatives have been formulated to optimize the role of Islamic banking within the socio-religious landscape of Bali through a more systematic and integrated approach. The Strengths-Opportunities (SO) strategy focuses on leveraging internal ethical foundations to drive market expansion, particularly through the accelerated development of innovative products tailored for MSMEs within the halal tourism ecosystem. By providing specialized financing for sharia-compliant hospitality and travel sectors, banks can transform their normative legitimacy into tangible economic value while supporting the achievement of SDG 8 regarding inclusive economic growth. Furthermore, strengthening synergy with the government and local institutions is crucial for promoting sustainable finance principles that integrate Islamic social finance instruments with green investment products. This initiative not only drives financial inclusion but also bridges the cognitive gap between Sharia principles and local Balinese wisdom by emphasizing universal ethical values over exclusive religious symbolism.

The Strengths-Threats (ST) strategy is designed to mitigate institutional resistance through product differentiation and radical transparency to counter negative stigma and the dominance of conventional banking. Through education efforts that shift from religious rhetoric toward the functional utility of the risk-sharing model, Islamic banking can demonstrate its economic resilience against traditional interest-rate fluctuations. Conversely, the Weaknesses-Opportunities (WO) strategy aims to rectify institutional voids, such as limited human resource expertise and digital infrastructure, by capitalizing on national regulatory momentum and the growth of the global sharia economy. Strategic partnerships in talent development and the utilization of digital technology, such as cloud-based banking applications, allow institutions to leapfrog physical infrastructure barriers in underserved "blank spot" areas. Finally, the Weaknesses-Threats (WT) strategy serves as a defensive posture to ensure institutional survival through operational efficiency

based on digital integration and data analytics to reduce costs. By expanding service accessibility and intensifying socialization efforts, Islamic banking can gradually erode negative stigmas and cultural preferences for conventional norms, thereby ensuring its continued contribution to reducing economic inequality as targeted by SDG 10 in the region.

4.7. The Strategic Role of Islamic Banking in Advancing Sustainable Development Goals

Islamic banking possesses a significant opportunity to advance the United Nations Sustainable Development Goals (SDGs) by operationalizing Sharia principles that prioritize distributive justice, social welfare, and environmental sustainability. In Muslim-minority contexts like Bali Province, this contribution is manifested through targeted interventions that address systemic poverty, foster inclusive economic growth, and bridge the wealth gap. Specifically, in the pursuit of SDG 1 (No Poverty), Islamic banking utilizes microfinance instruments grounded in the principles of Qard al-Hasan and Mudharabah. By offering interest-free loans and risk-sharing models, these institutions provide vital financial access to low-income individuals and those in the informal sector who are often marginalized by conventional interest-based systems. This approach aligns with the findings of Dewi et al. (2023), who argue that Islamic banking is pivotal in expanding financial services to the bottom of the pyramid, thereby enhancing the overall quality of life through ethical capital injection.

Furthermore, Islamic banking serves as a catalyst for SDG 8 (Decent Work and Economic Growth) by providing productive financing to Micro, Small, and Medium Enterprises (MSMEs) across diverse regional sectors, including agriculture, traditional crafts, and the burgeoning halal tourism industry. As noted by Wulandari and Pradesyah (2023), this financing not only stimulates job creation but also ensures that economic growth is inclusive and resilient. By mobilizing community funds into real-sector investments, Islamic financial institutions support the structural development of the halal industry, facilitating a robust economic ecosystem that adheres to ethical standards (Kustinah & Nisa, 2024). This productive role effectively bridges the gap between idle capital and entrepreneurial potential, fostering a stable economic environment even in non-Muslim majority regions.

Finally, the contribution of Islamic banking to SDG 10 (Reduced Inequalities) is realized through the strict application of distributive justice and the management of Islamic social finance (ZISWAF). By extending services into "blank spot" areas in Bali that are underserved by conventional banks, Islamic banking promotes financial equity and reduces geographical disparities. The strategic management of Zakat, Infaq, Alms, and productive Waqf serves as a secondary mechanism for wealth redistribution. According to Lestari et al. (2024), the transparent and efficient distribution of these funds to mustahik (rightful recipients) ensures that wealth is not concentrated among the few but is circulated to uplift the socio-economic status of the broader community. Through these integrated efforts, Islamic banking in Bali demonstrates a profound commitment to reducing economic inequality and fostering a more balanced and equitable society.

5. CONCLUSION

Islamic banking has great potential to support the achievement of the Sustainable Development Goals (SDGs), especially in areas with minority Muslim communities such as Bali. With sharia principles that prioritize social justice, sustainability, and welfare, Islamic banking can help reduce poverty, create decent jobs, and reduce economic inequality, especially through microfinance for MSMEs. However, the development of Islamic banking in Bali still faces various challenges, such as the dominance of conventional banking, low Islamic financial literacy, and social and cultural factors. Therefore, an integrated strategy is needed through literacy strengthening, product innovation, and digital transformation efforts to increase competitiveness and service inclusiveness.

This study has several limitations. First, the geographical limitation of focusing only on Bali Province requires caution in generalizing the findings to other regions. Second, the use of an exploratory qualitative approach means that the research results emphasize depth over statistical generalization. Based on these limitations, further research is recommended to conduct quantitative testing using approaches such as Structural Equation Modeling (SEM) or Partial Least Squares (PLS) to empirically validate the relationships between variables. Furthermore, cross-regional comparative studies, both across provinces in Indonesia and across countries with similar characteristics, are important to gain a more comprehensive understanding of the dynamics of Islamic banking development in Muslim-minority regions.

More broadly, this research impacts the development of Islamic finance literature by emphasizing the importance of a contextual approach in understanding the role of Islamic financial institutions outside Muslim-majority regions. These findings enrich discussions on Islamic financial inclusion strategies and demonstrate that the integration of Islamic principles, technological innovation, and socio-cultural sensitivity is key to fostering Islamic banking's contribution to sustainable development.

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