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Determinants of Syariah Financial Inclusion: a Case Study of Riau Province

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Abstract

The purpose of this research is to find out and analyze determinants of syariah financial Inclusion for a case study of Riau Province. This type of research is descriptive quantitative. The data used is secondary data. The analytical method used in this research is multiple linear regression. Based on the results of the study, it shows that the Riau Province of index of syariah financial inclusion can be categorized in the medium. Economic growth and human development index have significant effect on index of syariah financial inclusion, while the gini ratio has no significant effect on index of syariah financial inclusion.

Keywords
economic growth; human development index; gini ratio; syariah financial inclusion

I. Introduction

Financial institutions have many important roles in the economy, especially banking which has a significant role in creating financial stability and monetary stability. Monetary stability and financial stability must be in line, because monetary policy has a significant impact on financial stability, and vice versa. Financial stabilization is the condition of the financial system in allocating funds efficiently, and tends to be able to withstand economic shocks that occur. To create a stable financial system, financial inclusion is one of the policies that can be calculated and measured in order to see the level of its influence on macroeconomic variables, such as economic growth, income inequality, and poverty (Unnamed, 2017).

Financial inclusive as a process of ensuring access to suitable financial products and services necessary by all sections of the society in general and vulnerable group such as low-income group at an affordable budget in a fair and transparent by regulated, and mainstream institutional players (Bank Indonesia, 2011). In measuring the level of financial inclusion of a region, a measuring instrument is needed by formulating an inclusive index. The dimensions of the formulation of this index are divided into 3 indicators, namely banking penetration, accessibility of financial services, and usability (Gupta et al., 2014).

The financial services sector has an important role in efforts to improve people's welfare and encourage global economic growth. The role of the financial sector can be seen from the existence of a trilogy of consumer empowerment consisting of financial literacy, financial inclusion, and consumer protection. In a global perspective, financial inclusion is a condition where the population aged at least 15 years and over already has a savings account or electronic money registered with a formal financial institution. The most basic thing in financial inclusion is the existence of formal financial services that can reach all elements of society, so that they can be utilized according to their needs and abilities, to improve welfare. Financial inclusion is an inclusion financing scheme, with the main objective of providing various financial services to the poor and low-income groups. The variety of financial services includes, among others, capital credit, savings, insurance, and financial transfer services. There is a definition that explains the limitations and main characteristics of financial inclusion. Referring to the United Nations definition, the term financial inclusion refers to access to various financial services, at a reasonable cost, for people who are considered unbanked as well as those who run businesses in rural areas; for example agriculture or farms. These services include savings, short and long term loans, leasing, mortgages, insurance, pensions, payments, money transfers for local and international scope.

Then, in the national strategy of financial inclusion, it defines financial inclusion as the right of every individual to have full access to quality financial services in a timely, clear and affordable manner in full respect for his personal dignity. Financial services are provided for all segments of society, with special attention to the low-income poor, the productive poor, migrant workers, and people living in remote areas.

In terms of its intentions, the inclusion financial service scheme is intended to overcome the poverty situation. First, by opening up the exclusivity of the terms of providing capital which is generally practiced by financial institutions. Some of the objectives of financial inclusion are as follows:

1. Make the financial inclusion strategy part of the grand strategy of economic development, poverty alleviation, income distribution and financial system stability.
2. Provide financial services and products in accordance with the needs of the community.
3. Increase public knowledge about financial services.
4. Increase public access to financial services.
5. Strengthening the synergy between banks, microfinance institutions and non-bank financial institutions.
6. Optimizing the role of information and communication technology to expand the scope of financial services.

Benefits of financial inclusion some of the benefits that can be obtained from the financial inclusion service system are:

1. Access to credit capital will automatically open up business opportunities and/or can be used to increase the amount of investment by small entrepreneurs.
2. The opening of the network into the formal financial sector allows the poor to access various types of business loans, utilizing various insurance products with soft requirements.
3. In terms of costs, the ease of accessing business capital to the formal financial sector will reduce the growth of credit to the informal sector which is usually run by middlemen who generally charge an expensive loan withdrawal fee with an unreasonable credit term.
4. Various accounts that have been integrated in formal financial institutions can in turn be used for various very important purposes.

Banking penetration is the main indicator of financial inclusion, one of the components of which is the proportion of the population that has a bank account. Furthermore, accessibility of financial services is a financial public service that makes it easy for service users to access the financial system, for example, the number of banks, automated teller machines, and the infrastructure offered by the bank. Usability is one indicator, in which there is ease or difficulty in affordability of access in utilizing these financial services even though they have access to these financial services (Asyatun, 2018).

Financial inclusion in Indonesia is a national strategy to accelerate economic growth, followed by income distribution, poverty reduction, and economic stability. Based on the results of the World Bank survey in Global Financial Inclusion in 2014, the level of knowledge of the Indonesian people towards the financial system is only 36.05%. However, according to the Financial Services Authority in 2016, the level of public knowledge of the financial system was only around 29.66%. While the syariah financial literacy index is much lower at 8.11%.

A survey conducted by the Financial Services Authority in 2016 showed the Indonesian index of financial inclusion of 67.82% and index of syariah financial inclusion of 11.06%. According to Nengsih (2014), islamic banking is considered capable of implementing financial inclusion through banking products based on sharia principles.

Riau is one of the provinces in Indonesia that has great potential in terms of industrial development and islamic finance. In addition, Riau Province already has a halal industrial area development plan. However, the percentage of respondents' financial literacy and inclusion in Riau Province in 2019 was still very high at 43.19% and 86.39% compared to the sharia financial inclusion index (Otoritas Jasa Keuangan, 2020). This is in line with research conducted by Atikah (2019), the Riau Province index of syariah financial inclusion in 2015 and 2016 respectively, namely 0.118304 and 0.117776 with the independent variables studied including economic growth, human development index, gini ratio, unemployment, road infrastructure, cellphones, and the Internet in their effect on welfare in Indonesia with case studies are all provinces in Indonesia. Based on the research of Puspitasari et al. (2020), the sharia financial inclusion index in Riau Province during 2015-2018 is as follows 0.17; 0.14; 0.14; 0.14 thus, the category is low. The purpose of this research is to find out and analyze determinants of syariah financial Inclusion for a case study of Riau Province.

II. Research Method

This type of research is descriptive quantitative. Descriptive quantitative research is research that analyzes data by describing the data that has been collected in accordance with the existing facts (Pandia et al., 2018; Pandiangan, 2015; Pandiangan, 2018). Descriptive quantitative research is a type of research that is used to describe the characteristics of a population. It collects data that are used to answer a wide range of what, when, and how questions pertaining to a particular population or group (Asyraini et al., 2022; Octiva et al., 2018). Descriptive quantitative research attempts to collect quantifiable data of the population sample for statistical analysis. The descriptive method of research is used to describe a population or situation accurately (Pandiangan et al., 2021; Pandiangan et al., 2022).

The data used is secondary data. Secondary data is data collected from several institutions or related agencies that publish data to data users (Octiva, 2018; Pandiangan et al., 2018). Secondary data in this study were obtained from the Central Statistics Agency of Riau Province and the Financial Services Authority of the Republic of Indonesia. The scope of this research is Riau Province in the period 2016 to 2020. The data used to calculate the financial inclusion index in this study are in the form of data on the ratio of the number of islamic banking third party funds per 1,000 adult population, the ratio of the number of sharia bank service offices per 100,000 population adults and the ratio of the amount of syariah financial to gross regional domestic product. Meanwhile, related to the determinants of syariah financial inclusion on macro variables, data on several variables are used, namely gross regional domestic product, poverty level, gini ratio, and population.

The analytical method used in this research is multiple linear regression. Multiple linear regression is a statistical technique that can be used to analyze the relationship between a single dependent variable and several independent variables (Octiva et al., 2021; Pandiangan, 2022). The objective of multiple linear regression analysis is to use the independent variables whose values are known to predict the value of the single dependent value (Tobing et al., 2018).

III. Results and Discussion

3.1 Riau Province Index of Syariah Financial Inclusion

The index of syariah financial inclusion is composed of three composite dimensions, namely the accessibility dimension, availability dimension, and usage dimension. Each dimension consists of one indicator, where sequentially the indicators are total sharia deposits, number of sharia bank offices, and financing. The following are the results of index of syariah financial inclusion in Riau Province:

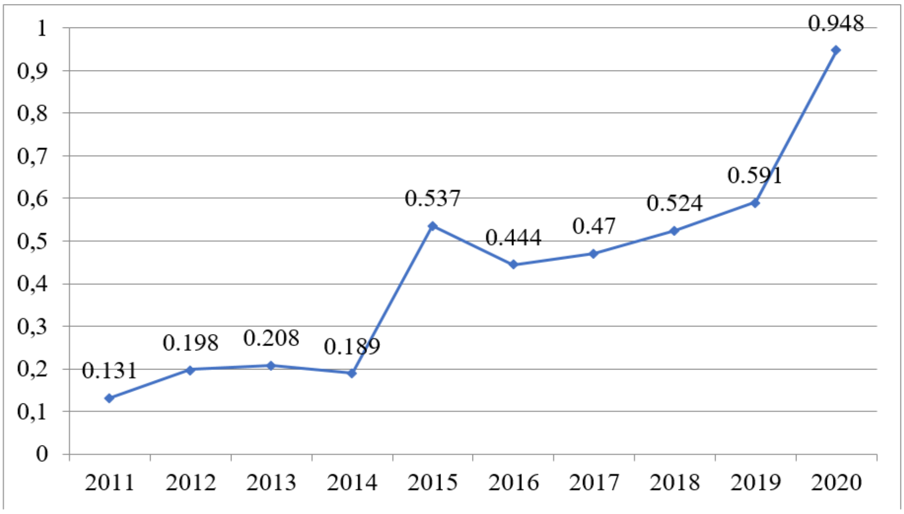

Figure 1. *Riau Province Index of Syariah Financial Inclusion*
Source: Processed Data (2022)

During the last decade, the value of index of syariah financial inclusion of Riau Province has increased, with an average 0.424, which shows Riau Province of index of syariah financial inclusion can be categorized in the medium.

. In 2011 to 2014, index of syariah financial inclusion of Riau Province ranged from 0.1 to 0.2 which categorizes the inclusiveness of syariah financial in Riau Province as being at a low level. In 2015, index of syariah financial inclusion increased significantly to reach 0.537 which was included in the medium index of syariah financial inclusion category. The following year, index of syariah financial inclusion of Riau Province decreased to 0.444, but remained in the medium index of syariah financial inclusion category. Until 2019, the Riau Province index of financial inclusion experienced a gradual increase until it reached 0.591, although it was still in the medium index of syariah financial inclusion category. In 2020, the index of syariah financial inclusion of Riau Province again experienced a drastic increase so that it touched the number 0.948, almost close to the perfect index of syariah financial inclusion, so that Riau Province was included in the high index of syariah financial inclusion category.

3.2 Determinants of Syariah Financial Inclusion of Riau Province
Multiple Linear Regression Results

Table 1. Multiple Linear Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-5.780705	2.069229	-2.793651	0.0314
Economic Growth	-0.074877	0.023121	-3.238449	0.0177
Human Development Index	0.089098	0.028510	3.125173	0.0204
Gini Ratio	-0.341590	0.260268	-1.312454	0.2373

Economic growth and human development index have significant effect on index of syariah financial inclusion, while the gini ratio has no significant effect on index of syariah financial inclusion.

3.3 Discussion

Based on the probability value of the t test in Table 1, the variables that have a significant effect on index of syariah financial inclusion are economic growth and human development index with probability values of 0.0177 and 0.0204, respectively, smaller than significance level 0.05. While gini ratio with a probability value of 0.2373 is greater than significance level 0.05 so it does not have a significant effect on t index of syariah financial inclusion. It can be interpreted that economic growth and human development index partially affect the performance or achievement of index of syariah financial inclusion, while partially the gini ratio variable cannot significant effect on index of syariah financial inclusion.

These results are in accordance with research conducted by Darmawan (2013) which proves that the financial sector will lead to long-term economic growth, this is because the financial sector has a direct relationship to the real sector, so that development in the financial sector will affect economic growth. The financial sector plays a role in encouraging the growth of the real sector through capital accumulation and technological innovation, this is because the financial sector has an important role as the main provider of funds to finance the economy, so that good financial sector stability will be able to optimize a country's economic growth. In another study, Umar (2017) found that human development index has a significant effect on index of syariah financial inclusion. Gupta et al. (2014) also found using the dimensions of penetration, availability, and usage of banking services on index of financial inclusion, that the human development index as a proxy for the welfare of the Indian people has a positive correlation with index of financial inclusion. These results relate to the effect of community welfare as measured by human development index with the ability, knowledge, and public awareness of the financial sector.

IV. Conclusion

Based on the results of the study, it shows that the Riau Province of index of syariah financial inclusion can be categorized in the medium. Economic growth and human development index have significant effect on index of syariah financial inclusion, while the gini ratio has no significant effect on index of syariah financial inclusion.

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