

Effect of Financial Inclusion on Economic Development and Community Welfare in East Kalimantan Province

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Abstract

The research objective is to explore effect of financial inclusion on economic development and community welfare in East Kalimantan Province. This research is a quantitative research. Data retrieval takes the object of research in East Kalimantan Province, by taking secondary data from related agencies such as the Financial Services Authority, the Central Statistics Agency of East Kalimantan Province, as well as other data sources that are considered to be able to support the writing of this thesis. The data used is secondary data in the form of time series for a period of fifteen years, namely from 2007 to 2021. Data collection techniques used from research are in the form of library research and recording. Data analysis in this study is carry out using multiple regression analysis. The results of the study show that financial inclusion has a positive and significant effect on economic development in East Kalimantan Province. Financial inclusion has a positive and significant effect on community welfare in East Kalimantan Province. Economic development has a negative and significant effect on community welfare in East Kalimantan Province. Financial inclusion has a negative and insignificant effect on community welfare through economic development in East Kalimantan Province.

Keywords

financial inclusion;
economic
development;
community welfare



I. Introduction

Indonesia is a developing country which is on its way to becoming a developed country. Of course, in this case there are various problems that must be resolved. Social welfare is one of the biggest concerns of the Indonesian government at this time. In accordance with the text of the Preamble to the 1945 Constitution, promoting the welfare of all Indonesian people is the ideal of this country and is also a human right. Prosperity is a condition of safe, comfortable and sufficient and safe. Based on Law Number 11 of 2009, the indicator to measure social welfare is to look at the fulfillment or fulfillment of needs such as material needs, spiritual needs as well as physically and mentally healthy. With this explanation, it can be concluded that public health is also an indicator of social welfare.

East Kalimantan Province is one of the largest provinces in Indonesia which is rich in potential natural resources, especially mining materials in the form of coal and oil. In addition, East Kalimantan Province is also rich in forestry resources. East Kalimantan Province with a land area of 19,664,117 ha and a marine management area of 1,021,657 ha, contains enormous potential to be developed into an agribusiness and agro-industry area. In producing quality human resources, facilities and infrastructure are needed to make it happen, such as investment in the fields of education and health, therefore a big role for the government is needed (Muliza et al., 2017).

To achieve sustainable development, human resources must be able to develop and optimize their capabilities. In a simple sense, development can be interpreted as an effort or process to make changes for the better. In practice, development has various complexities of problems. The development process occurs in all aspects of people's lives, including economic, political, social and cultural aspects. The human development report interprets human development as a process to increase the choices that humans have. The choices in question and the most important include the choice to live a long and healthy life, the choice to acquire knowledge, and the choice to have access to the resources needed to live a decent life. Every individual should have his right in this world to determine his desire to live properly from various aspects of their respective needs to achieve prosperity in a state life order. One of the indicators used to measure the extent to which development has produced results in a country is the human development index.

Economic development is a process of increasing total income and per capita income by taking into account population growth and accompanied by fundamental changes in the economic structure of a country and income distribution for residents of a country. Economic development cannot be separated from economic growth. Economic development will encourage economic growth and vice versa economic growth that facilitates a process of economic development.

In economic development, the community itself acts as a main actor and the government becomes a guide and in supporting the course of an economic development. Economic growth is one indicator of the success of the development process. The higher the economic growth, usually the higher the level of community welfare.

This economic development is a process of change towards improvement that is carried out consciously and planned to be able to improve the standard of living of the community. The rate of economic growth is one of the main indicators of the welfare of the people of a country. High economic growth can indicate a high level of welfare in society. With an economic growth of 2.48% in 2021. The province of East Kalimantan contributes per capita income of 182.54 million. This income is considered quite significant for the formation of gross regional domestic product.

The financial system not only mobilizes savings and ease of exchange but also plays an important role in producing and disseminating information, allocating and monitoring resources, and managing and diversifying risk. Furthermore, a well-functioning financial system reduces information and transaction costs resulting in beneficial effects on savings and investment decisions, the rate of technological innovation, and ultimately per capita income and growth rates (Abrar et al., 2021).

The context of the relationship between the development of the financial sector and economic development has been debated for a long time (Erlando et al., 2020) stating that when corporate profits grow well, it encourages the development of financial conditions in society, therefore, finance does not cause economic growth, but rather responds to demands. from the real sector. Financial markets that contribute to economic growth is a proposition used to discuss empirical evidence. Logic on the basis of good economic growth tends to encourage the development of the financial sector. Meanwhile, the importance of reporting is to explore the rationality of the financial sector's ability to encourage economic growth, due to the accessibility of capital boost. Erlando et al. (2020) consider it a form of the role of the financial sector in promoting endogenous growth through the positive impact of capital accumulation, investment and savings. Other factors such as financial technology innovations are likely to drive the development of introductory economic growth in the future.

The relationship between the financial sector and the real sector on the basis of economic development has developed into the concept of the "trickle down effect", which means encouraging growth and poverty alleviation due to income distribution. The impact of a growing financial sector has the ability to indirectly reduce poverty. This impact is due to the correlation between economic and financial variables. Furthermore, Uddin et al. (2012) stated that there is a relationship between development in the financial sector and poverty. Therefore, this finding recommends policy makers to develop the financial sector in order to reduce poverty in stages.

Boukhatem (2016) states that many studies believe that the continuation of the impact of financial inclusion on economic growth is poverty reduction. However, in Boukhatem's research, the growth assumption is omitted, so that the relationship between financial inclusion and poverty alleviation is one-way, with data obtained from 67 low- and middle-income countries from 1988-2012. The results show that financial development has a direct impact on poverty alleviation. This is considered a phenomenon of an increase in money supply or bank credit that contributes to improving the welfare of the poor, and an increase in financial transactions that leads to opportunities for capital accumulation, income distribution, and smooth consumption.

The research objective is to explore effect of financial inclusion on economic development and community welfare in East Kalimantan Province.

II. Research Method

This research is a quantitative research. The quantitative research is also known as the scientific method because it has fulfilled the scientific principles, namely concrete, objective, measurable, rational, and systematic. In addition, this method is called quantitative research because the research data is in the form of numbers and the analysis uses statistics (Asyraini et al., 2022; Octiva, 2018; Pandiangan, 2015).

Data retrieval takes the object of research in East Kalimantan Province, by taking secondary data from related agencies such as the Financial Services Authority, the Central Statistics Agency of East Kalimantan Province, as well as other data sources that are considered to be able to support the writing of this thesis. The data used is secondary data in the form of time series for a period of fifteen years, namely from 2007 to 2021.

Data collection techniques used from research are in the form of library research and recording (Jibril et al., 2022; Octiva et al., 2018; Pandiangan, 2018; Pandiangan et al., 2018; Pandiangan, 2022):

1. Literature study, where researchers collect data and information through documents, reports, publications and special publications from related institutions/agencies.
2. Recording, secondary data obtained through direct recording from several sources or institutions/agencies related to this research.

Data analysis in this study is carry out using multiple regression analysis. Multiple regression analysis is used to predict how the condition (increase and decrease) of the dependent variable, if two or more independent variables as predictors are manipulated (increase in value) (Octiva et al., 2021; Pandiangan et al., 2021; Pandia et al., 2018). So multiple regression analysis will be carried out if the number of independent variables is at least two (Pandiangan et al., 2022; Tobing et al., 2018).

III. Results and Discussion

3.1 Overview of Research Objects

East Kalimantan Province is one of the second largest provinces after Papua Province, has abundant natural resource potential where most of these potentials have not been utilized optimally.

Natural resources and their products are mostly exported abroad, so this province is a major foreign exchange earner for the country, especially from the mining, forestry, and other products sectors.

Administratively, this province is bordered by North Kalimantan Province, in the east by part of the Makassar Strait and Sulawesi Sea, in the south by South Kalimantan Province, in the west by Central Kalimantan Province and West Kalimantan Province, and State of Sarawak, East Malaysia.

East Kalimantan has a land area of 127,267.52 km² and a sea management area of 25,656 km² located between 113°44' East Longitude and 119°00' East Longitude and between 2°33' North Latitude and 2°25' South Latitude.

The population of East Kalimantan Province in 2003 was 2,311,162 people, in 2010 based on the results of the population census it reached 3,047,500 people. Thus, during that period, the population of East Kalimantan Province increased by 736,338 people, with an average annual population growth of 3.60 percent. The population in 2013 was 3,300,517 people with the composition of the population by gender consisting of a male population of 1,731,820 people (52.47 percent) and a female population of 1,568,697 people (47.53 percent).

The economy of East Kalimantan Province in 2021 based on the amount of gross regional domestic product at current prices will reach Rp695.16 trillion and at constant prices in 2010 it will reach Rp484.30 trillion.

The economy of East Kalimantan Province in the fourth quarter of 2021 compared to the previous quarter grew by 0.45 percent (q-to-q). In terms of production, the Government Administration, Defense, and Mandatory Social Security Business Fields experienced the highest growth of 19.98 percent. Meanwhile, in terms of expenditure, the Government Consumption Expenditure Component experienced the highest growth of 63.20 percent.

The economy of East Kalimantan Province in the fourth quarter of 2021 compared to the fourth quarter of 2020 grew by 2.91 percent (y-on-y). In terms of production, the Construction Business Field experienced the highest growth of 10.86 percent. From the expenditure side, the Gross Fixed Capital Formation Component experienced the highest growth of 9.81 percent.

The economy of East Kalimantan Province in 2021 will grow by 2.48 percent. In terms of production, the largest growth occurred in the Health Services and Social Activities Business Field of 13.34 percent. Meanwhile, from the expenditure side, all components grew positively with the highest growth occurring in the Gross Fixed Capital Formation Component of 8.03 percent.

Economic growth in 2021 will occur in all provinces on the island of Kalimantan. East Kalimantan province contributed the highest at 49.66 percent with a growth of 2.48 percent.

3.2 Multiple Regression Analysis Results

Table 1. Direct Hypothesis Test Results

Effect	Coefficient	T Statistics	Sig.	Information
Financial Inclusion (X) →Economic Development (Y ₁)	0.895	7.240	0.000	Significant
Financial Inclusion (X) →Community Welfare (Y ₂)	1.413	7.738	0.000	Significant
Economic Development (Y ₁) →Community Welfare (Y ₂)	-0.541	-2.963	0.012	Significant

Source: Processed from SPSS Results

Table 2. Indirect Hypothesis Test Results

Exogenous	Endogenous	Intervening	Estimate	S.E.	t	Sig.
Financial Inclusion (X)	Community Welfare (Y ₂)	Economic Development (Y ₁)	-0.484	0.470	-1.030	0.323

Source: Processed from SPSS Results

The results of the study show that financial inclusion has a positive and significant effect on economic development in East Kalimantan Province. Financial inclusion has a positive and significant effect on community welfare in East Kalimantan Province. Economic development has a negative and significant effect on community welfare in East Kalimantan Province. Financial inclusion has a negative and insignificant effect on community welfare through economic development in East Kalimantan Province.

IV. Conclusion

The results of the study show that financial inclusion has a positive and significant effect on economic development in East Kalimantan Province. Financial inclusion has a positive and significant effect on community welfare in East Kalimantan Province. Economic development has a negative and significant effect on community welfare in East Kalimantan Province. Financial inclusion has a negative and insignificant effect on community welfare through economic development in East Kalimantan Province.

The suggestions that can be given in this research are as follows:

1. A stable level of inclusiveness will also have a good impact on banks in carrying out their intermediation role so that it will provide opportunities for the emergence of new investors. Then with regard to efforts to improve the welfare of the community evenly, several efforts need to be made, for example through efforts to increase domestic investment so that it is not only concentrated in one particular area and can open up new opportunities for the emergence and development of new industries in each region.
2. The provision of financial services should be mostly given to low-income groups because in addition to increasing economic stability, it can also help the sustainability of local economic activities.
3. The government is expected not only to focus on economic development based on high economic growth but also how to build more or more job opportunities and equalize income or reduce disparities in people's income.

4. The government is expected to always be able to make regulations and policies that are more pro-poor so that it can provide opportunities for them to improve their standard of living.
5. The acceleration of development that is population-oriented and oriented is an absolute requirement that must be carried out, especially various improvements in the fields of education and health as well as the expansion of job opportunities that can provide more value than just the necessities of a decent life. The participation of the population in development as a subject will accelerate the increase in the welfare of the population.
6. Further research is needed regarding the effect of financial inclusion on economic development and community welfare in East Kalimantan Province using other relevant indicators and methods.

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