

Islamic Financial Inclusion Index in Indonesia and its Correlation to Women's Quality of Life

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This thesis discusses and provides an overview of the Islamic financial inclusion index in Indonesia and its correlation with women's quality of life. This study uses a descriptive quantitative approach with the method of calculating the Index of Sharia Financial Inclusion (ISFI). The data from this study uses secondary data obtained from the publications of the Financial Services Authority, the Central Statistics Agency and the Ministry of Child Protection and Women's Empowerment of the Republic of Indonesia. The study covers 33 provinces for the 2015-2020 period. The results of this study found that the level of Islamic financial inclusion in Indonesia was still relatively low at 0.105. Based on the observations, the provinces of DKI Jakarta and Nanggroe Aceh Darussalam, are the most superior provinces in measuring the Islamic financial inclusion index in this study, with the acquisition value of each province respectively 0.531 and 0.435. This study also found that the Islamic financial inclusion index (ISFI) has a positive relationship to women's quality of life (IPG). These results indicate that changes in the level of Islamic financial inclusion will result in changes in women's quality of life (IPG) in the same direction or if the ISFI index increases by one unit it will increase the GPA index by 7.811.

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INTRODUCTION

Welfare and income equality in a country are essential in the economic field. Many efforts to improve welfare and income equality have been made by the government, including the accessibility of the financial sector. The financial sector has an important role to mediate the *surplus income community* to the *deficit income community*. However, in reality, the development of financial institutions is not necessarily accompanied by easy access for every group of people, even though access to financial services is an important element in the national and international economic system. (Resendiz, 2017).

Based on the 2017 Global Index Database there are still around 1.7 billion people around the world who do not have an account at a financial institution or through a mobile money provider. In addition, based on the 2019 e-Conomy SEA document, the results of research conducted by Google, TEMASEK, and BAIN & COMPANY, there are still 198 million ASEAN people who have not had access to finance or banking at all, and 92 million of them are Indonesians. (google et al., 2019) Where this kind of condition is called financial *exclusion*, which is a condition where a person experiences obstacles in accessing or utilizing financial services and products as the needs of society in general, so that they experience difficulties in carrying out social life in the community where they live. (European Commission, 2008)

In order to respond to this *financial exclusion* case, the concept of financial *inclusion* or inclusive finance is an effort to eliminate all forms of barriers in the form of prices or non-prices, to a person's access to using quality, timely, easy, and comfortable financial services with an affordable budget based on the needs and abilities of the community in order to improve welfare. (Presidential Regulation, 2020). The term *Financial inclusion* became a trend after the 2008 crisis based on the impact of the crisis on groups at *the bottom of the pyramid* (low and irregular income, living in remote areas, people with disabilities, workers who do not have legal identity documents, and marginalized communities) which are generally unbanked which is recorded very high in developing countries including Indonesia. (Miraza, 2014).

Given the importance of this issue, the discussion of inclusive finance has become an important agenda at the national and international levels. Many international organizations and institutions have made inclusive finance a focus of attention and development

agenda such as the *Organisation for Economic Cooperation and Development* (OECD), G20, ASEAN, *Alliance for Financial Inclusion* (AFI), *Asia Pacific Economic Cooperation* (APEC), CGAP, World Bank, *Asian Development Bank* (ADB), BIS, *Financial Action Task Force* (FATF), UNDP and even in Indonesia itself has become a priority agenda for the government with the issuance of Presidential Regulation Number 114 of 2020 revision of Presidential Regulation Number 82 of 2016 concerning the National Financial Inclusion Strategy (SNKI). Actually, in Indonesia, this SNKI has been started since 2012 with the publication of the SNKI document for the first time, then in 2013 the Indonesian National Financial Literacy Strategy document was published, then 2019 there was a special SNKI Document for Youth and finally on June 9, 2020 the SNKI for Women was launched.

Furthermore, looking at the phenomena that occur in Indonesia, especially related to Islamic financial inclusion and literacy, as we know that Indonesia is a country with the largest Muslim population in the world, but unfortunately the level of Islamic financial inclusion and literacy in Indonesia is only 9% and 8.9%, very far behind conventional finance which is 76.19% and 38.03%. (OJK, 2019) And from this data it is known that 50% of Indonesians, including women, do not understand the financial products they use. The *Financial Services Authority* (2019) reported that the female inclusion index is still lower at 75.2% compared to the male inclusion index of 77.2%, an increase compared to the 2016 survey results.

This is unfortunate because women are the main stakeholders in managing finances, especially in the household in order to give birth to an economically strong generation, this has been stated in Q.S An-Nisa Verse 9, as explained in the interpretation of Al Misbah by M. Quraish Shihab this verse relates to the responsibility of parents towards their children in the form of property / material, and also immaterial such as education and fostering faith and piety. Imam Nawawi also revealed that the meaning of *dżurriyatan dhi'afan* (weak offspring) is not to leave a weak generation, both in terms of economics (which causes poverty), religion, morals and knowledge. (Shihab, 2002)

Furthermore, based on the Integrated Database (BDT) or now called the Integrated Social Welfare Data (DTKS) from TNP2K, there are currently 21,969,925 households with the lowest 40% welfare status in Indonesia and around 19% are households with female household heads. (Coordinating Ministry for Economic Affairs, 2020) 36.67% of women (35.34 million) of the productive age female population take care of the

household, this figure is much higher than men whose figure is only 3.99% taking care of the household. (Ministry of Women's Empowerment and Child Protection, 2019)

Based on several previous studies that found a positive relationship between financial inclusion and women's welfare, including some that have been proposed by Muhammad Yunus, a Nobel Peace Prize laureate for his efforts to create economic and social development that departs from the small economy through microcredit, Yunus established a Grameen Bank with the main target being poor women. (Yunus & Jolis, 2006) Not only Yunus, other researchers such as Mahadi et al., (2019) revealed that with financial inclusion women taking care of households have the right to have access to finance to improve their welfare. Sakanko, (2020) the results of his research show that there is a positive relationship between financial inclusion and women's participation in gainful employment, of course this can improve their quality of life. Asmawati & Ahmad, (2015) the results of his research show that financial inclusion through Islamic microfinance can increase women's income. Nugroho & Chowdhury, (2015) found that access to financial institutions can increase the professionalism of women entrepreneurs which means it can improve their quality of life. Arnold & Gammage, (2019) found that through digital financial inclusion can help women meet their financial needs which have been limited, because with digital finance there are financial products that can specifically meet the needs of women, thus helping them improve the welfare of their families.

More specifically, Elrahman & Ali, (2019) found that empowering women through Islamic financial inclusion can help women in Comoros escape poverty. Muhammad, (2018) also found that the existence of Islamic financial inclusion through women's empowerment using cash waqf instruments can prevent girls in Kano from migrating to the city to help meet the needs of their families.

Therefore, considering the importance of financial inclusion, especially for women, which will certainly have a positive impact on improving the welfare of the family and the State, it is appropriate that studies related to Islamic financial inclusion specifically for women become an important and interesting agenda to be carried out both by researchers and related policy makers. In addition, studies that focus on the measurement and influence of Islamic financial inclusion on women's quality of life are still very limited and are one of the points that can cause government

efforts in this case to be less than optimal, especially lately the government is focusing on handling Islamic financial inclusion programs and Women's Financial Inclusion, but the official SNKIP (National Strategy for Women's Inclusive Finance) document has not been published even though it was *launched* on June 20, 2020, due to limited scientific study literature.

In order to close the gap, this study tries to analyze and measure the Islamic financial inclusiveness of 33 provinces in Indonesia and its effect on women's quality of life, this study becomes different and new from previous financial sector inclusiveness studies such as those conducted by Sarma, (2012), Sanjaya and Nursechafia, (2016), Kumari & Azam, (2019) and Sakanko, (2020) who still see and study financial inclusiveness in a non-sharia (conventional) context, in contrast to research conducted by Ali et al., (2019) and Umar, (2017) who saw its effect on HDI (*Human Development Index*) using data from 2014-2017 and 2010-2015, besides that it is also different from research conducted by Asmawati & Ahmad, (2015). Asmawati & Ahmad, (2015), Yaumidin et al., (2017), Muhammad, (2018) and Mahadi et al. (2019) which examines the role of Islamic financial inclusion in empowering women's economy. So this study uses a more specialized scope to calculate the Islamic financial inclusion index of 33 provinces in Indonesia using Islamic banking data which includes Islamic Commercial Banks, Islamic Business Units and Islamic People's Financing Banks, as well as its specific effect on women's quality of life using data from 2015-2020 considering that in 2019 an Islamic financial inclusion and literacy index survey was conducted by the OJK as an update from the 2016 survey. This research is expected to provide input for the government and related parties in designing economic and financial inclusion policies specifically for women based on empirical evidence and findings.

RESEARCH METHOD

This research uses a quantitative descriptive research method with the *Index of Sharia Financial Inclusion* (ISFI) and *Pearson Correlation* approaches. The ISFI approach is used to analyze and measure sharia financial inclusion in 33 provinces in Indonesia. While *Pearson Correlation* is used to determine the effect of Sharia Financial Inclusion on the quality of life of women in Indonesia. The data used in this study are secondary data from the Financial Services Authority (OJK), the Central Statistics Agency (BPS) and the Indonesian Ministry of Women's Empowerment and Child Protection (KPPPA), with a time span from 2015 to 2020. While

the population in this study are all provinces in Indonesia based on OJK and BPS data for 2015-2020, totaling 33 provinces. Researchers used 2015-2020 because in 2016 and 2019 a national sharia financial inclusion index survey was conducted by the Financial Services Authority of the Republic of Indonesia.

Operational Definition of Variables

This research uses the *Index of Sharia Financial Inclusion* (ISFI) method developed by Sarma, (2012) in analyzing and measuring Islamic financial inclusion between countries, therefore the research variables used refer to the ISFI measurement dimensions, namely accessibility (D_1), availability (D_2) and users (D_3).

Table 1. Statistical Variable Description

No.	Variables	Description	Indicator
I. Analysis of Islamic Financial Inclusion Measurement			
1.	Accessibility (D_1)	Measuring the penetration of Islamic finance in society (Sarma, 2012)	The amount of Islamic banking deposits (BUS, UUS, BPRS) in millions of rupiah per 1,000 adult population is calculated by the formula: $D1 = \frac{\text{Amount of iB deposit (yeari)}}{\text{Total population (yeari)}} \times 1.000$
2.	Availability (D_2)	Measuring the ability to use formal Islamic financial services by the community (Sarma, 2012)	The number of service offices of Islamic Banks BUS, UUS and BPRS per 100,000 adult population is calculated by the formula: $D2 = \frac{\text{Total of Islamic bank branches}}{\text{Total population (yeari)}} \times 100.000$
3.	User (D_3)	Measuring the extent to which the use of Islamic banking financial services in meeting the needs of the community, including in the form of Islamic financing (Sarma, 2012)	The ratio of total Sharia financing (Sharia Commercial Banks, Sharia Business Units and Sharia Islamic People's Financing Banks) to Gross Domestic Product (GDP) in billion rupiah is calculated by the formula: $D1 = \frac{\text{Total financing (yeari)}}{\text{GDP value (yeari)}} \times 1.000$
II. Correlation and Regression Analysis (Effect) of Sharia Inclusive Finance on Women's Quality of Life			
4.	Islamic financial inclusion index	$D1 + D2 + D3$	
5.	Gender Development Index	HDI is one of the indices used to measure the level of quality of life of women based on the achievement of the same basic human development capabilities as HDI with attention to gender inequality.	

Source: adopted from Sarma, (2012) and Gupta et al., (2014)

Data Analysis Technique

The data analysis methods that researchers use are descriptive and quantitative methods. The descriptive method serves to present the results of the calculation of Islamic financial inclusion of 33 provinces in Indonesia which will be presented in graphs and tables with descriptive explanations of the results of the ISFI calculations obtained. Furthermore, the quantitative method used is the *Index of Sharia Financial Inclusion* (ISFI) using Microsoft Excel, which was developed by Sarma, (2012). Sarma, (2012) and Pearson's correlation coefficient using the *Enviens* application developed by Gupta et al. (2014). This method is used to determine the correlation

between the *Index of Sharia Financial Inclusion* (ISFI) and the Gender Development Index (GPA).

The Islamic financial inclusion index is built based on three dimensions namely: (i) accessibility (2) availability and (iii) users. The first dimension, accessibility (D_1), reflects the penetration rate of Islamic banking institutions. The second dimension, availability (D_2), is measured by the number of Islamic banks in each province. And then the use (D_3) shows the total Islamic banking financing per total regional GDP. For more detail, here are the steps in determining the inclusion index value of each dimension: The first step uses the following formula:

$$di = w_i \frac{A_i - m_i}{M_i - m_i}$$

where:

w_i = existing weight in the dimension i

A_i = true value of the dimension i

m_i = lower limit of dimension value i

M_i = upper limit of dimension value i

Referring to the method Sarma (2012) this research applies the same weight to each research dimension. ($w_i = 1$). According to Sarma (2012)(2012), all dimensions have the same level of significance, therefore, the researcher used weighted values $w_i = 1$ for all dimensions. i . If a dimension has a value close to w_i , this indicates the area with the highest achievement of all dimensions. As for the upper limit and lower limit (M_i and m_i), since there are no outlier results in the case of Islamic banking in Indonesia, point M_i represent the maximum value of the available data, while m_i represents the minimum value.

There are several steps to calculate the financial inclusion index, where the final part of the financial inclusion index formula is obtained by taking the average values of X1 and X2 which represent the position between the worst point and the ideal point.

$$X_2 = \frac{1}{2} \left[\frac{\sqrt{d_1^2 + d_2^2 + d_3^2}}{\sqrt{3}} + \left(1 - \frac{\sqrt{(1-d_1)^2 + (1-d_2)^2 + (1-d_3)^2}}{\sqrt{3}} \right) \right]$$

The results of the ISFI measurement are divided into three categories: (i) ISFI values less than 0.3 are categorized as low ISFI, (ii) ISFI values between 0.3 and 0.6 are categorized as medium ISFI, and (iii) ISFI values between 0.6 and 1 are categorized as high ISFI. (Sarma, 2012)

Next is to formulate an estimation model to determine the relationship between ISFI and GPA based on *Pearson's correlation coefficient*:

$$r = \frac{N(\sum XY) - (\sum X)(\sum Y)}{\sqrt{N \sum X^2 - (N \sum X)^2} \sqrt{N \sum Y^2 - (\sum Y)^2}}$$

Next, the Gender Development Index (HDI) starts from the calculation of the Human Development Index (HDI). Each HDI component before being used must be standardized with minimum and maximum values. In the new IPG calculation method used by BPS, to calculate the IPG number directly using the Ratio, no longer comparing it with the HDI number, the IPG formula is obtained as follows:

$$IPG = \frac{IPM_P}{IPM_L} \times 100$$

The result will show the ratio between women's development and men's development. The number that is closer to the value of 100 shows that the gender development index is more balanced or evenly distributed, otherwise if the result shows a number that is getting away from 100, gender development is more unequal or uneven. (KPPPA, 2019)

Statistical Hypothesis

Partial hypothesis testing can be tested using the t-test formula. The t-statistic test aims to test whether or not there is an influence of each independent variable on the dependent variable. In this case, women's quality of life is the dependent variable (variable Y) and Islamic financial inclusion is the independent variable (variable X). Furthermore, the t-test results are seen from the comparison of the p-value with α of 0.05 or comparing t count with t table, with the following provisions:

If p-value < .05 or t count > t table, then H0 is rejected ($\alpha = 5\%$).

If p-value > 0.05 or t count < t table, then H0 is accepted ($\alpha = 5\%$).

Here's the explanation:

1. If the p-value is greater than 0.05 or the calculated t value is greater than or equal to the t table value, the null hypothesis is rejected where H0 = 'There is no effect of Islamic financial inclusion on women's quality of life.'
2. On the other hand, if the p-value is smaller than 0.05 or the t-value is smaller than the t-table value, then the null hypothesis is accepted, where H1 = 'Islamic financial inclusion affects women's quality of life.'

RESULTS

Overview of Sharia Financial Inclusion Index of 33 Provinces in Indonesia

Based on the results of data processing conducted by researchers using Islamic banking statistics in Indonesia provided by the Financial Services Authority (OJK) in 2015-2019, in this case researchers use the dimensions of accessibility, availability and use of Islamic Commercial Banks, Islamic Business Units and Islamic People's Financing Banks which refer to the

financial inclusion index calculation method developed by [Sarma, \(2012\)](#) shows the following results.

Descriptive Statistics of Three Dimensions of Islamic Financial Inclusion

Table 2 contains descriptive statistics of the three dimensions of Islamic financial inclusion for 33 provinces in Indonesia. The table presents various statistical indicators, consisting of minimum (min), maximum (max), mean and standard deviation (set. dev) varying over the entire observed period (2015-2020).

Table 2. Descriptive Statistics of Three Dimensions of Financial Inclusion

Accessibility (D1)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	0,023	0,023	0,022	0,025	0,025	0,026	0,024
Max	11,165	13,270	15,947	17,151	18,747	18,821	15,850
Mean	0,765	0,964	1,138	1,280	1,448	1,568	1,194
Std, Dev,	1,887	2,283	2,756	2,947	3,231	3,324	2,738
Availability (D2)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	0,078	0,078	0,078	0,078	0,078	0,075	0,078
Max	3,161	3,364	3,485	3,645	4,025	6,559	4,040
Mean	0,984	0,960	0,960	0,995	1,021	1,042	0,994
Std, Dev,	0,614	0,731	0,732	0,752	0,805	1,138	0,795
Usage (D3)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	2,849	2,786	2,500	2,164	1,903	1,908	2,352
Max	61,182	114,406	117,073	114,570	127,447	221,841	126,087
Mean	16,775	20,561	22,017	24,368	26,113	31,109	23,490
Std, Dev,	11,497	20,816	22,163	24,486	26,948	40,763	24,446

Source: Author (2021)

In the accessibility dimension (D1), Table 2 shows a gradual average increase in the amount of third party deposits of BUS, UUS and BPRS, namely from IDR 765 million in 2015 to IDR 1.568 billion in 2020. From 2015-2020 the average value of the amount of third party funds in BUS, UUS and BPRS per 1,000 residents is IDR 1.194 billion. Furthermore, if we observe from 33 provinces in Indonesia, DKI Jakarta is the province with the highest amount of third party funds, namely with an average over 6 years (2015-2020) of IDR 15.85 billion per 1,000 population. The high accessibility of Islamic banking in DKI Jakarta is a natural thing considering that DKI Jakarta is the capital city of Indonesia which is the center of the economy and government in Indonesia. This is followed by Nanggroe Aceh Darussalam at IDR 4.06 billion per 1,000 population.

Then the province of East Kalimantan occupies the 3rd position as the province with the highest accessibility of Rp 1.68 billion per 1,000 population. The province with the lowest accessibility is East Nusa Tenggara province with a total DPK of 24 million per 1,000 population, this figure occurs because based on the results of the Islamic financial literacy index survey conducted by OJK in 2016 NTT province showed an index of 0.0% and in 2019 it showed a figure of 1.31% which means that in 2015-2018 out of 100 residents no one has a good understanding of Islamic finance and in 2019 there is only 1 out of 100 people who have good knowledge of Islamic finance so that people in NTT province are still very few who place their funds in Islamic banking.

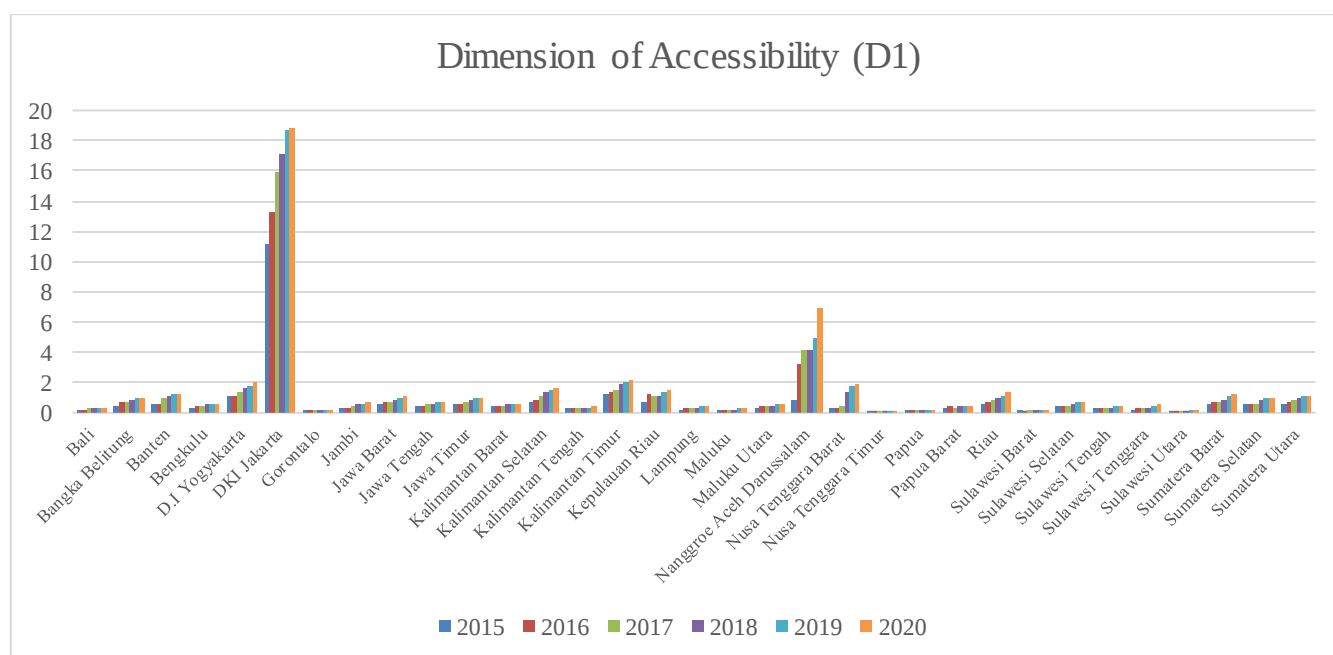


Figure 1. Accessibility Dimension (D1) of 33 Provinces in Indonesia

The availability dimension is measured by the total distribution of Islamic banking networks, including head offices, operational head offices, branch offices, sub-branch offices, Islamic business units and cash offices. With regard to the availability dimension (D2), the average penetration of Islamic banking (BUS, UUS and BPRS) per 100,000 population is 0.99 units or in other words, there are 9 units available to serve 1 million people. Of the 33 provinces in Indonesia, Nanggroe Aceh Darussalam is the province with the highest penetration of 3.75 units per 100,000 population. This is certainly closely related to the issuance of Aceh Qanun

Number 11 of 2018 concerning Sharia Financial Institutions which requires financial institutions (both banks and non-banks) to apply sharia principles in their operations and services, not only that the conversion of Bank Aceh into Bank Aceh Syariah in September 2016 which made it the first sharia bank in Indonesia. Furthermore, the second highest availability ranking is DKI Jakarta and followed by East Kalimantan with an average Islamic banking penetration of 2.87 units and 2.20 units per 100,000 population respectively. The availability dimension in these 3 provinces exceeds the overall average value of Islamic banking penetration.

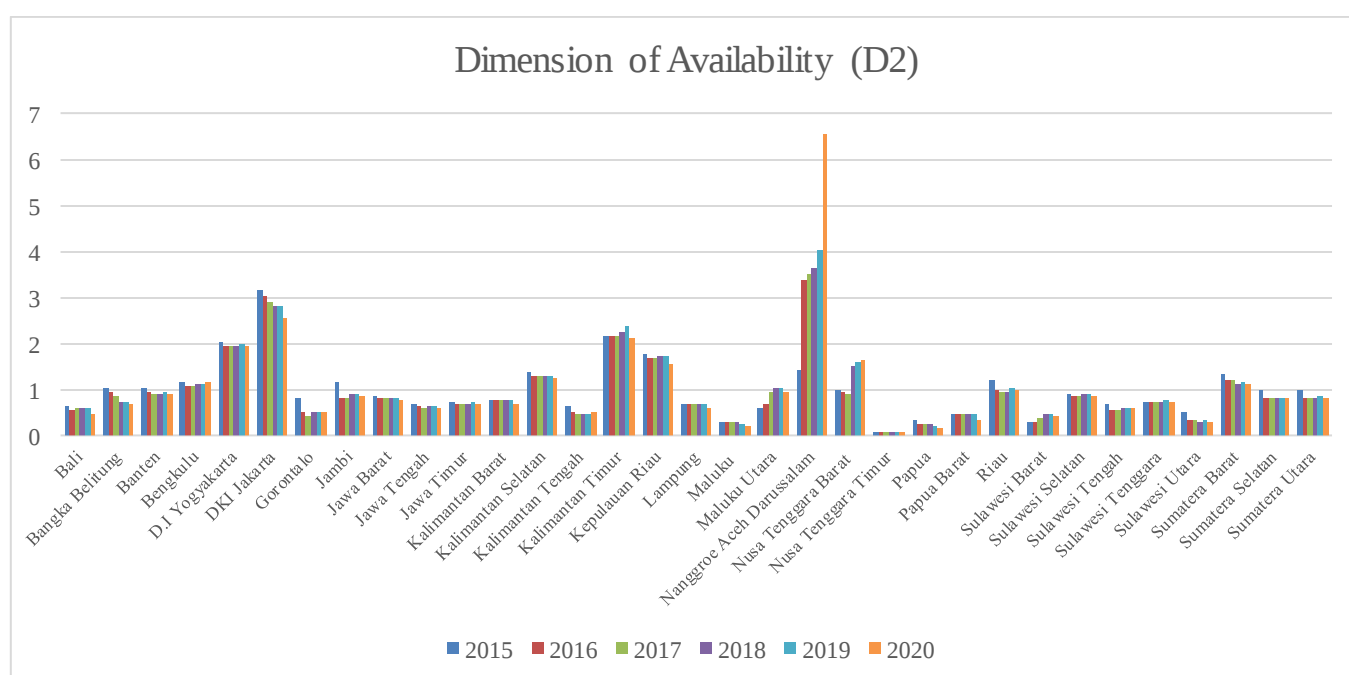


Figure 2. Availability Dimension (D2) of 33 Provinces in Indonesia

Furthermore, to calculate inclusive finance, having an account at an Islamic bank is not enough, because the existence of Islamic financial services must provide benefits to the community. So that the Use dimension (D3) measures the extent to which Islamic banking institutions can provide various products to their customers, such as financing facilities, deposits, remittances, transfers and others. In this study, the use dimension (D3) calculates the proportion of financing on BUS, UUS and BPRS to regional GDP. From table 2 it is known that Indonesia has an average value of financing usage from 2015 to 2020 of IDR 23.49 billion.

If seen from Figure 2, out of 33 provinces, Nanggroe Aceh Darussalam occupies the first position

as the province with the highest use of Islamic banking services, with an average financing of IDR 120.38 billion. Followed by DKI Jakarta with an average financing value of IDR 75.55 billion and West Nusa Tenggara in the third position with an average financing of IDR 62.36 billion. Meanwhile, in the lowest position is West Papua province with only an average financing value of IDR 2.35 billion in the 2015-2020 period. It is important to note that the conversion of Bank Aceh to a fully Islamic bank in 2016 has significantly increased the amount of Islamic banking financing in Nanggroe Aceh Darussalam, showing a 4x increase compared to 2015.

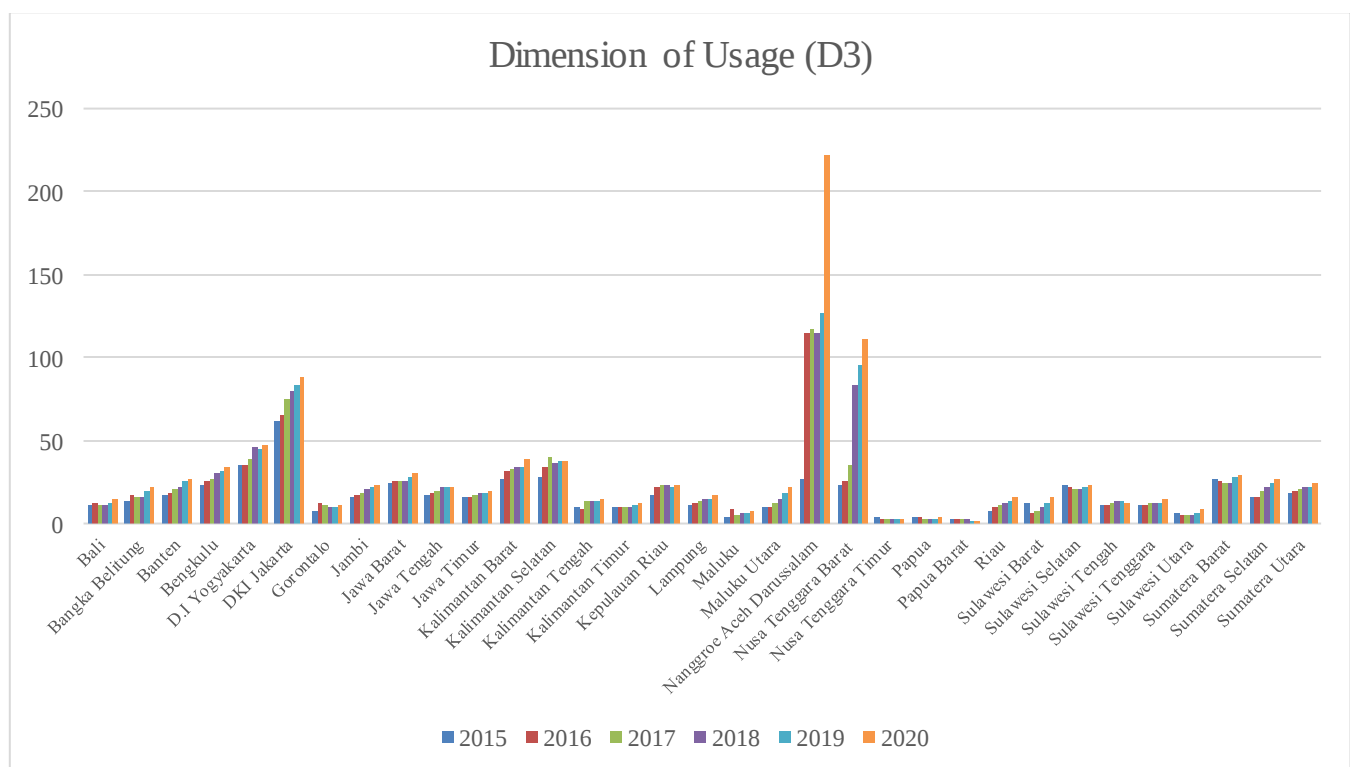


Figure 3. Dimensions of Usage (D3) of 33 Provinces in Indonesia

In this study the results were uniform with research conducted by Ali et al., (2019), Puspitasari et al., (2020), Ihsan & Azwar, (2018), Umar, (2017) and Isrowiyah, (2019) The two provinces that always excel as the highest provinces of D1, D2 and D3 are the provinces of DKI Jakarta and Nanggroe Aceh Darussalam while the two lowest provinces that always enter are the provinces of NTT and West Papua. However, D3 results from research Ihsan & Azwar, (2018) and Umar, (2017). However, the results of D3 from the research of Ihsan & Azwar, (2018) and Umar, (2017) are not uniform with other studies, including the

results in this study, there are differences in values that differ by hundreds of billions.

Islamic Financial Inclusion Index in Indonesia

The Islamic Financial Inclusion Index is a tool used to measure and assess the level of financial inclusion in Islamic finance. Financial inclusion refers to the availability and accessibility of financial services to all segments of society, including low-income individuals, small businesses, and marginalized communities.

The index specifically focuses on measuring financial inclusion within the framework of Islamic finance, which adheres to principles such as interest-free transactions (*riba*), risk-sharing, and ethical investment guidelines according to Islamic law (*Shariah*). Islamic finance aims to promote economic development while adhering to ethical and social principles. Having

discussed the descriptive statistics relating to the three dimensions of Islamic financial inclusion, this subsection will discuss the development of the Islamic financial inclusion index. Table 3 below contains the minimum (*min*), maximum (*max*), mean and standard deviation (*std. dev.*) of each component in the index.

Table 3. Descriptive Statistics of Sharia Financial Inclusion Index

Accessibility Index (d1)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Max	0,593	0,705	0,847	0,911	0,996	1,000	0,842
Mean	0,040	0,050	0,059	0,067	0,076	0,082	0,062
Std, Dev,	0,100	0,121	0,147	0,157	0,172	0,177	0,146
Availability Index (d2)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	0,000	0,000	0,000	0,000	0,000	0,000	0,000
Max	0,476	0,507	0,526	0,551	0,609	1,000	0,611
Mean	0,140	0,136	0,136	0,142	0,146	0,149	0,142
Std, Dev,	0,095	0,113	0,113	0,116	0,124	0,175	0,123
Usage Index (d3)							
Stat,	2015	2016	2017	2018	2019	2020	Average
Min	0,004	0,004	0,003	0,001	0,000	0,000	0,002
Max	0,270	0,512	0,524	0,512	0,571	1,000	0,565
Mean	0,068	0,085	0,091	0,102	0,110	0,133	0,098
Std, Dev,	0,052	0,095	0,101	0,111	0,123	0,185	0,111

Based on Table 3 above, this study found that the availability index (d2) has the highest value with an average value of 0.142, followed by the usage index (d3) with an average value of 0.098 and the last is the accessibility index (d1) of 0.062. These results show that the availability (d2) and usage (d3) dimensions contribute significantly to the growth of Islamic financial inclusion in Indonesia. The highest average number for the availability dimension (d2) reveals that the existence of head offices, operational head offices, branch offices, sub-branch offices, sharia business units and cash offices in various parts of Indonesia is very helpful in increasing the Islamic financial inclusion index in Indonesia considering that Indonesia is an archipelago. Although we have now entered industry 4.0 where banks should not really need branch offices, but in fact in Indonesia these branch offices are still needed considering that regions in Indonesia still have not been able to reach all regions in Indonesia and the digital literacy of Indonesian people is also still low, which is at 3.17 (Setu,

2020). Therefore, apart from online services, offline services are still needed by the people of Indonesia.

Not only that, the usage dimension occupies the second position, revealing that Islamic banking is performing well in channeling financing to its customers, because as an intermediary medium between the *surplus income community* and the *deficit income community*, it should revive the real sectors, so that its existence as an economic driver is truly felt by the community. Because it is meaningless if the third party fund deposits are large but not channeled to the real sector, but this research has proven that Islamic banks are present to revive the real sector.

Another finding of this study is the uneven distribution of third-party funds of Islamic banks in the 33 provinces that are the object of research (see Figure 4). The level of third party funds of Islamic banks in western Indonesia tends to be greater than that of central and eastern Indonesia.

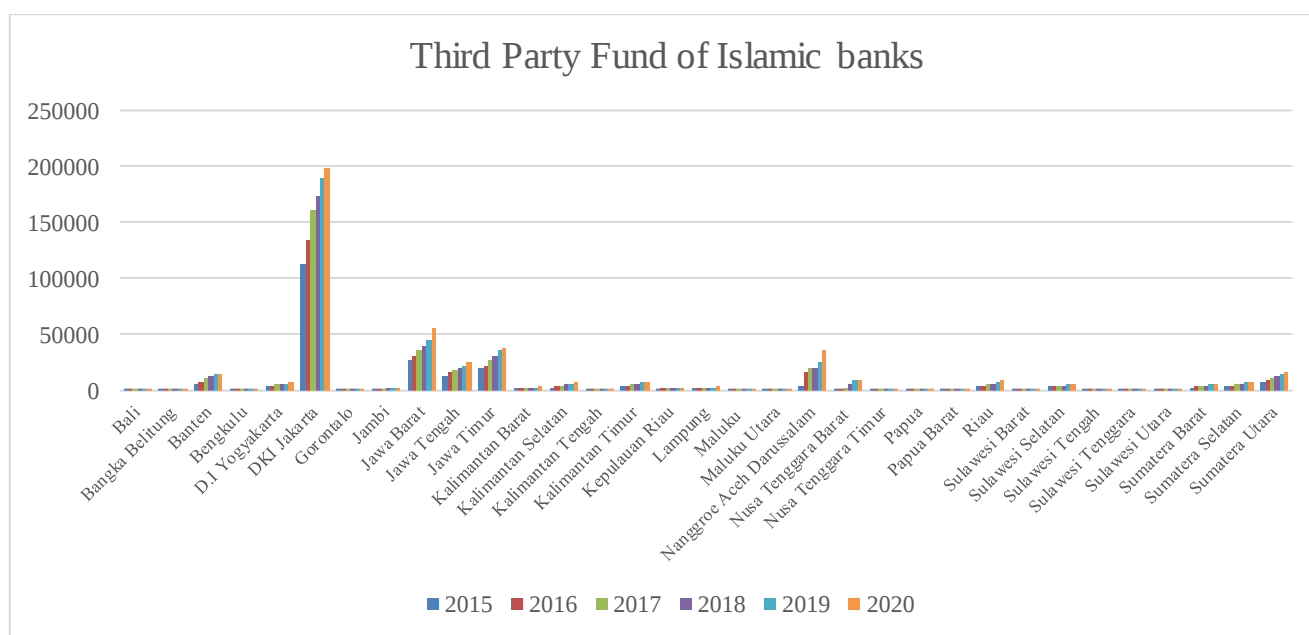


Figure 4. Third Party Funds (DPK) of Islamic Banks in 33 Provinces in Indonesia

Especially the provinces on the island of Java such as DKI Jakarta, West Java, East Java, Central Java, Banten and DI Yogyakarta. The province with the highest average third party funds from 2015-2020 is DKI Jakarta, which amounted to IDR 162.2 trillion, followed by West Java and East Java provinces, which

have an average value of IDR 39.5 trillion and 29.1 trillion, respectively. Meanwhile, the 3 provinces with the lowest value of third-party funds are East Nusa Tenggara with a value of IDR 123 million, West Sulawesi with a value of IDR 222 million and Gorontalo with IDR 238 million.

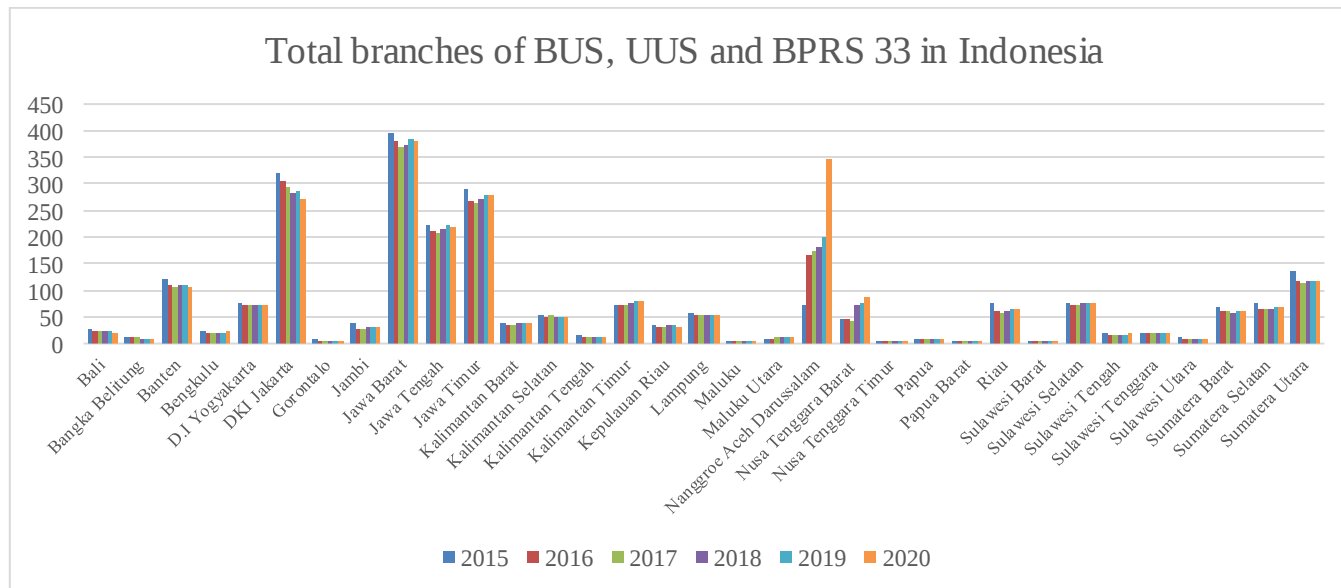


Figure 5. Distribution of BUS, UUS and BPRS 33 Provinces in Indonesia

Furthermore, the results of this study also found that the distribution of Islamic bank branches is still concentrated in Java, especially West Java, DKI Jakarta, East Java and Central Java (see Figure 5). Only Nanggroe Aceh Darussalam, a province outside Java, has a higher number of branches than other provinces outside Java. Central and eastern Indonesia, on the other hand, have relatively few Islamic bank branches. Therefore, this is a big challenge for Islamic banks to

bring bank branches to all corners of Indonesia in order to reach people in various Indonesian islands.

Of the five previous studies and this study, showed 4 studies including, the author's research, Puspitasari et al., (2020), Umar, (2017), and Isrowiyah, (2019) provide results that d2 is the most influential dimension in supporting the increase in the Islamic financial inclusion index in Indonesia. That way concrete steps to add branch offices or smart banking programs

are the right thing to do as an effort to encourage an increase in the Islamic financial inclusion index in Indonesia. Furthermore, the majority of research in the table above shows the results that d1 is the dimension that has the lowest contribution in encouraging Islamic

financial inclusion in Indonesia, this is in line with the objectives of Islamic finance as stated in Q.S Al Hasyr verse 7 as explained in this study that Islamic finance prioritizes the real sector because wealth must be distributed to support economic growth and equity.

Table 4 Islamic Financial Inclusion Index of 33 Provinces in Indonesia

Islamic Financial Inclusion Index									
PROVINCE	2015	2016	2017	2018	2019	2020	Average	Rank	Category
Bali	0.051	0.047	0.048	0.048	0.050	0.046	0.048	25	Low
Bangka Belitung	0.081	0.084	0.079	0.072	0.078	0.079	0.079	18	
Banten	0.088	0.084	0.090	0.096	0.103	0.104	0.094	11	
Bengkulu	0.103	0.100	0.104	0.112	0.114	0.121	0.109	9	
D.I Yogyakarta	0.182	0.176	0.184	0.199	0.202	0.208	0.192	3	
DKI Jakarta	0.448	0.484	0.535	0.555	0.583	0.580	0.531	1	Medium
Gorontalo	0.057	0.045	0.038	0.042	0.042	0.043	0.045	27	Low
Jambi	0.091	0.072	0.075	0.084	0.086	0.088	0.083	17	
West Java	0.088	0.088	0.089	0.091	0.096	0.103	0.093	12	
Central Java	0.062	0.064	0.067	0.072	0.074	0.071	0.068	21	
East Java	0.068	0.066	0.068	0.072	0.076	0.075	0.071	20	
West Kalimantan	0.085	0.093	0.096	0.100	0.101	0.104	0.097	10	
South Kalimantan	0.128	0.130	0.146	0.140	0.145	0.146	0.139	7	
Central Kalimantan	0.050	0.042	0.045	0.046	0.047	0.051	0.047	26	
East Kalimantan	0.161	0.162	0.165	0.175	0.185	0.171	0.170	5	
Riau Islands	0.137	0.143	0.143	0.147	0.149	0.142	0.144	6	
Lampung	0.056	0.056	0.057	0.060	0.061	0.059	0.058	23	
Maluku	0.019	0.027	0.021	0.023	0.019	0.020	0.022	31	
North Maluku	0.049	0.056	0.075	0.084	0.090	0.089	0.074	19	
Nanggroe Aceh Darussalam	0.131	0.402	0.426	0.431	0.482	0.740	0.435	2	Medium
West Nusa Tenggara	0.090	0.091	0.107	0.232	0.264	0.292	0.179	4	Low
East Nusa Tenggara	0.004	0.003	0.001	0.001	0.001	0.002	0.002	33	
Papua	0.021	0.016	0.016	0.016	0.014	0.010	0.015	32	
West Papua	0.031	0.032	0.031	0.031	0.032	0.024	0.030	29	
Riau	0.088	0.077	0.078	0.084	0.092	0.096	0.086	14	
West Sulawesi	0.032	0.023	0.030	0.038	0.042	0.045	0.035	28	
South Sulawesi	0.088	0.083	0.082	0.084	0.088	0.088	0.085	15	
Central Sulawesi	0.056	0.047	0.049	0.052	0.053	0.052	0.052	24	
Southeast Sulawesi	0.057	0.057	0.058	0.059	0.064	0.066	0.060	22	
North Sulawesi	0.034	0.022	0.023	0.020	0.025	0.026	0.025	30	
West Sumatra	0.120	0.112	0.110	0.109	0.118	0.118	0.115	8	
South Sumatra	0.082	0.072	0.078	0.086	0.092	0.094	0.084	16	
North Sumatra	0.088	0.082	0.083	0.087	0.091	0.092	0.087	13	
Indonesia	0.089	0.095	0.100	0.108	0.114	0.123	0.105		Low

Source: Author (2022)

For more detail, the results of the calculation of the Islamic financial inclusion index of 33 provinces in Indonesia can be seen in table 4 above. Overall, this study found that the total average Islamic financial

inclusion index in Indonesia from 2015 to 2020 was 0.105. This figure is classified as low based on the measurement standards put forward by [Sarma, \(2012\)](#). The index value of less than 0.3 is categorized as low, the

index value between 0.3 and 0.6 is categorized as medium, and the index value between 0.6 and 1 is categorized as high. Thus, most provinces in Indonesia have a low level of Islamic financial inclusion index. Namely, out of a total of 33 provinces in Indonesia, there are 31 provinces with Islamic financial inclusion index in the low category and only 2 provinces in the medium category, namely DKI Jakarta and Nanggroe Aceh Darussalam. So that way there are no provinces that fall into the high category. However, with the current development compared to other countries in Asia Pacific, Indonesia is listed as the most progressive country in financial inclusion growth (World Bank, 2017). The 3 provinces with the highest and lowest ISFI values can be seen in the attachment. East Nusa Tenggara province has the lowest level of financial inclusiveness, followed by Papua and Maluku. The number of poor people is high and also the level of income per capita of the three provinces is still very low.

The lack of people who can access banking services and the uneven number of banking service offices in East Nusa Tenggara, Papua and Maluku provinces, causes the third party funds (DPK) that can be collected by banks to also be low so that the amount of credit that can be distributed is also getting less. In the end, the level of community welfare and economic growth is very low.

In terms of culture, Soeriadiredja's research (2013) describes a relationship that alienates and excludes each other between two groups of people in the NTT region. This alienation and exclusion has resulted in some NTT people not getting proper education, away from educational values, especially in terms of the

economy so that poverty and deprivation in NTT are increasingly difficult to solve. This is one of the causes of the low value of the Islamic financial inclusion index in NTT.

The conflict between the Papuan people and PT Freeport Indonesia has multidimensional causes and consequences that concern many people and foreign parties as investors. From several existing studies that discuss projects, it can be seen that a project has broad social impacts, such as changes in culture, social tradition values, changes in livelihoods or sources of income, social inequality, deprivation of customary rights (especially land) and marginalization of indigenous peoples (Ngadisah, 2002). Problems such as social inequality, unclear employment and so on, cause the problem of poverty in Papua to be increasingly difficult to overcome so that the value of the Islamic financial inclusion index of Papua Province is very low.

The largest number of poor people are in Papua and Maluku (Central Bureau of Statistics, 2018). Poverty is caused by lack of education, very low economic growth, public investment and low health status according to Kartasasmita in Jonaidi (2012). High poverty levels, low economic growth and poor public health conditions will greatly affect the value of the province's Islamic financial inclusion index.

In addition, the cause of the low sharia financial inclusion index in the three provinces is due to the low sharia financial literacy index in the three provinces, based on a survey conducted by OJK in 2019, in order NTT by 1.31%, Papua by 4.72% and Maluku by 5.25%. Furthermore, the following are the top 10 provinces with the highest Islamic financial inclusion index.

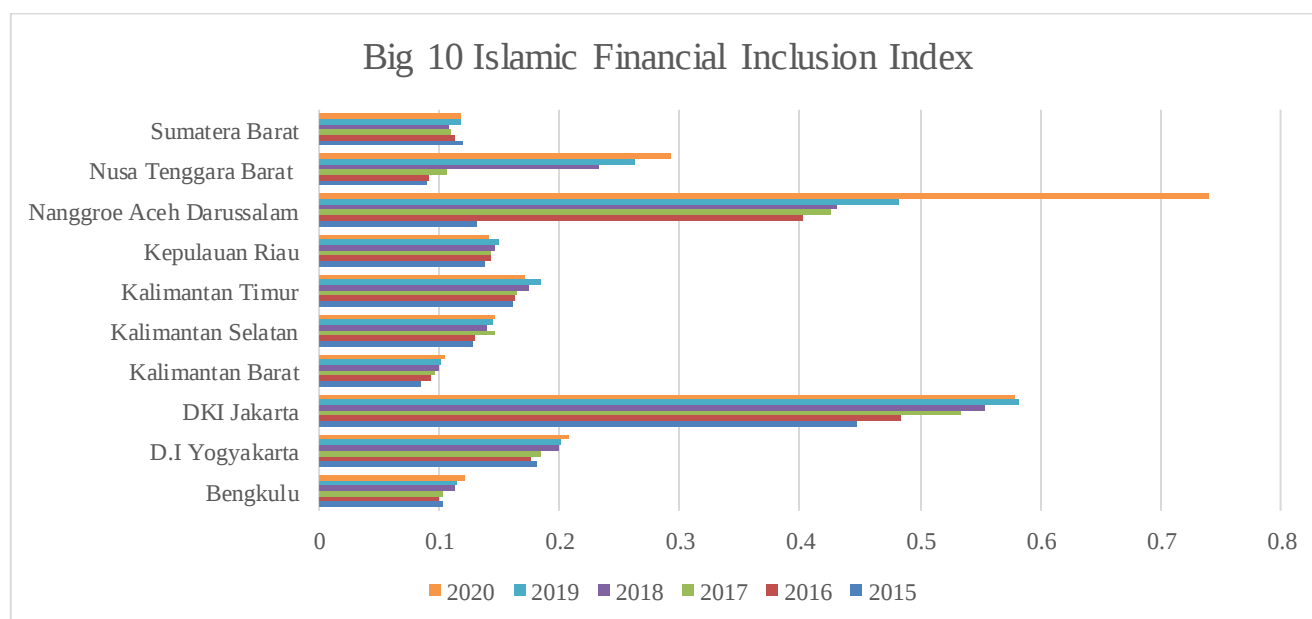


Figure 6: Top Ten Islamic Financial Inclusion Index

The province that has the highest Islamic financial inclusion index is DKI Jakarta with the acquisition of an Islamic financial inclusion index value of 0.531 which shows an average index that continues to increase from 2015-2019, namely from 0.448 to 0.583 even though it had decreased to 0.580 in 2020 due to the spread of Covid-19 which paralyzed the economy in almost all Indonesian provinces including DKI Jakarta, which is the province with the most Covid-19 cases. Furthermore, the provinces that rank second and third in order are Aceh and DI Yogyakarta, with values of 0.435 and 0.192 respectively.

In this study and five other previous studies found that the Islamic financial inclusion index in Indonesia is still in the low category as evidenced by all studies in the table showing an average of 0.1. In addition, the majority of studies in the table mention that the province with the highest Islamic financial inclusion

index is DKI Jakarta and the lowest province is East Nusa Tenggara. While the Top 3 ISFIs in the author's research are DKI Jakarta, Nanggroe Aceh Darussalam and DI Yogyakarta, this goes hand in hand with what was found by [Puspitasari et al., \(2020\)](#) and [Isrowiyah, \(2019\)](#).

Correlation between Islamic Financial Inclusion Index and Women's Quality of Life

The following sub-section investigates the correlation between the Islamic financial inclusion index and the HDI of 33 provinces in Indonesia. The data related to HDI is taken from the Central Bureau of Statistics of the Republic of Indonesia. Table 5 illustrates the distribution of the GNI of 33 provinces that serve as one of the indicators for calculating women's quality of life from 2015 to 2020.

Table 5: Gender Development Index of 33 Provinces in Indonesia

PROVINCE	Gender Development Index						
	2015	2016	2017	2018	2019	2020	Average
Bali	92,71	93,20	93,70	93,71	93,72	93,79	93,47
Bangka Belitung	88,37	88,90	88,93	89,15	89,00	88,92	88,88
Banten	91,11	90,97	91,14	91,30	91,67	91,74	91,32
Bengkulu	91,38	91,06	91,34	91,37	91,19	91,00	91,22
D.I Yogyakarta	94,41	94,27	94,39	94,73	94,77	94,80	94,56
DKI Jakarta	94,72	94,98	94,70	94,70	94,71	94,63	94,74
Gorontalo	85,87	86,12	86,64	86,63	86,83	86,73	86,47
Jambi	88,44	88,29	88,13	88,44	88,44	88,41	88,36
West Java	89,11	89,56	89,18	89,19	89,26	89,20	89,25
Central Java	92,21	92,22	91,94	91,95	91,89	92,18	92,07
East Java	91,07	90,72	90,76	90,77	90,91	91,07	90,88
West Kalimantan	85,61	85,77	86,28	86,74	86,81	86,87	86,35
South Kalimantan	88,55	88,86	88,60	88,61	88,61	88,86	88,68
Central Kalimantan	89,25	89,07	88,91	89,13	89,09	89,03	89,08
East Kalimantan	85,07	85,60	85,62	85,63	85,98	85,70	85,60
Riau Islands	93,22	93,13	92,96	92,97	93,10	93,31	93,12
Lampung	89,89	90,30	90,49	90,57	90,39	90,33	90,33
Maluku	92,54	92,38	92,75	93,03	93,04	92,97	92,79
North Maluku	88,86	89,15	89,15	89,50	89,61	89,55	89,30
Nanggroe Aceh Darussalam	92,07	91,89	91,67	91,67	91,84	92,07	91,87
West Nusa Tenggara	90,23	90,05	90,36	90,37	90,40	90,45	90,31
East Nusa Tenggara	92,91	92,72	92,44	92,57	92,72	92,73	92,68
Papua	78,52	79,09	79,38	80,11	80,05	79,59	79,46
West Papua	81,99	82,34	82,42	82,47	82,74	82,91	82,48
Riau	87,75	88,04	88,17	88,37	88,43	88,14	88,15
West Sulawesi	92,92	92,79	92,84	93,15	93,09	89,43	92,37
South Sulawesi	89,52	89,35	89,44	90,05	89,76	92,86	90,16

Central Sulawesi	92,25	91,91	91,66	92,08	92,01	91,87	91,96
Southeast Sulawesi	90,30	90,23	90,24	90,24	90,56	90,50	90,35
North Sulawesi	94,64	95,04	94,78	94,79	94,53	94,42	94,70
West Sumatra	94,74	94,42	94,16	94,17	94,09	94,17	94,29
South Sumatra	92,22	92,08	92,43	92,62	92,40	92,38	92,36
North Sumatra	90,96	90,82	90,65	90,66	90,71	90,67	90,75
Gender Development Index	90,10	90,16	90,19	90,35	90,37	90,34	90,25

Source: Author (2021)

Based on the data above, it is known that DKI Jakarta is the leading province with the best quality of life for women compared to other provinces in Indonesia, because in this province the role of women in state development has been involved in various fields and business lines. In addition, the public facilities needed by women are more complete, then the better education system and adequate health facilities. The average IPG of DKI Jakarta 2015-2020 is 94.74. Then in second place is North Sulawesi with a value of 94.70 and DI Yogyakarta is in 3rd place with a value of 94.56. In contrast, Papua is the province with the lowest HDI in Indonesia with a value of 79.46. Although the national average has improved, significant differences occur at the regional level, both in favor of boys and girls.

Furthermore, the results of *pearson correlation* (attached) can be drawn a conclusion that the Islamic financial inclusion index (ISFI) has a positive relationship with the quality of life of women (IPG) with an *r-pearson* value of 0.261, the ISFI coefficient value of 7.811 and a significance of 0.0002 (smaller than *alpha* 0.05). These results indicate that changes in the level of Islamic financial inclusion will lead to changes in the quality of life of women (HDI) in a unidirectional manner or if the ISFI index increases by one unit, it will increase the HDI index by 7.811. Provinces with high Islamic financial inclusion index values also have high gender development index values, DKI Jakarta, Nanggroe Aceh Darussalam and DI Yogyakarta which are the 3 provinces with the highest financial inclusion index have better HDI compared to other provinces. Likewise, provinces that have a low financial inclusion index tend to have a low GPA as well as Papua and West Papua Provinces. Therefore, this study is in line with what was found by Ali et al., Isrowiyah, (2019) and Umar, (2017) that the Islamic financial inclusion index is positively correlated with HDI and supports the development of MSMEs through the financing provided, as well as in this study showing the results of ISFI positively and significantly correlated with women's quality of life.

In relation to the availability indicator, attention to women entrepreneurs must also be shown by improving the quality of products and services provided by banks (Ministry of KUKM, 2012). Providing credit to women entrepreneurs and providing banking access for women MSME entrepreneurs will be able to increase economic turnover, which will have an impact on improving women's quality of life. Related to the accessibility indicator, companies owned or managed by women are increasing, but on the other hand many women entrepreneurs have difficulty obtaining credit from banks or other financial services. Whereas access to banking services and banking facilities is one way to strengthen the community's economy (World Bank, 2013).

In terms of usage, the phenomenon of women entrepreneurs in Indonesia is very interesting to see because it turns out that micro and medium-sized women entrepreneurs have begun to play an important role in the business sector. Business activities run by these women represent 60% of the total number of micro-entrepreneurs and contribute significantly to economic growth in Indonesia. In recent years, third world countries, spearheaded by international institutions (such as the United Nations and the World Bank), have emphasized the importance of microcredit to overcome poverty among women, that is, to meet the needs of poor women who have tended to be neglected (Pearson, 1992; Moser, 1992). The most obvious example is the success of Muhammad Yunus, in Bangladesh with Grammen Bank, India with SEWA, one-third of the total microcredit in the world is received by women target groups in India (Elavia, 1994 in Panjaitan et al., 1999), including in Indonesia.

The average Islamic financial inclusion index of 33 provinces in Indonesia from 2015-2020 is 0.105, so there are 24 provinces with index values below the average and there are only 9 provinces above the average, namely DKI Jakarta, Nanggroe Aceh Darussalam, DI Yogyakarta, NTB, East Kalimantan, Riau Islands, South Kalimantan, West Sumatra and Bengkulu. The province that obtained the Islamic

financial inclusion index with the maximum value was Nanggroe Aceh Darussalam province in 2020, and East Nusa Tenggara was the province with the lowest Islamic financial inclusion index in 2019. Furthermore, for the gender development index, there are 20 provinces with values above the average and 13 below the average. Thus North Sulawesi province in 2016 is the province with the highest GPA and Papua in 2015 is the lowest province.

CONCLUSION

This study measures the Islamic financial inclusion index of 33 provinces in Indonesia based on three dimensions namely accessibility, availability and use of Islamic banking. Overall, this study concluded that the level of Islamic financial inclusion in Indonesia is still relatively low with only a value of 0.105 based on 2015-2020. Then if observed provincially DKI Jakarta and Nanggroe Aceh Darussalam are the most superior provinces in measuring the Islamic financial inclusion index in this study, with the acquisition of the value of each province respectively 0.531 and 0.435 or in other words only these 2 provinces fall into the medium category the rest are provinces with low financial inclusion categories. In contrast, East Nusa Tenggara province has the lowest level of Islamic financial inclusion index with an index score of only 0.002.

This study also found that the Islamic financial inclusion index (ISFI) has a positive relationship with women's quality of life (WQI) with an *r-pearson* value of 0.261, at an ISFI coefficient value of 7.811 and a significance of 0.0002 (smaller than *alpha* 0.05). These results indicate that changes in the level of Islamic financial inclusion will lead to changes in the quality of life of women (HDI) in a unidirectional manner or if the ISFI index increases by one unit, it will increase the HDI index by 7.811. Provinces with high Islamic financial inclusion index values also have high gender development index values, DKI Jakarta, Nanggroe Aceh Darussalam and DI Yogyakarta which are the 3 provinces with the highest financial inclusion index have better HDI compared to other provinces. Likewise, provinces that have a low financial inclusion index tend to have a low GPA as well as the provinces of Papua and West Papua.

From the results of the research that has been done, the authors recommend several things including:

1. For the government: provide statistical data on the Islamic financial industry other than Islamic banking such as Islamic fintech, baitul mal wa tamkin, Islamic insurance, and other Islamic financial institutions. In addition, institutions under the government should cooperate with universities, educational foundations, non-governmental organizations and other institutions in educating the public about Islamic financial inclusion and literacy to all levels of society from early childhood to adulthood.
2. For universities: create and develop a study center or research on Islamic financial inclusion and literacy and empower the community in a sustainable manner which is included in the tri dharma program of higher education.
3. For religious leaders and mosque takmir: it is expected to include the topic of Islamic financial inclusion and literacy in lectures, sermons, and religious studies because the potential to increase financial inclusion from mosques is enormous, such as functioning the mosque corner as a smart practice of Islamic banking.
4. For future researchers: it is expected to expand the range of research objects by adding data such as Islamic fintech, BMT, zakat, and others, or conducting comparative studies of other countries, as well as further examining the determinants of the Islamic financial inclusion index.

To the central and regional governments in order to give more attention to Central Indonesia and Eastern Indonesia, especially the provinces of NTT, Papua and Maluku which are still very low in financial inclusiveness, such as collaborating with Islamic financial institutions in each province to pay more attention to the level of financial literacy including Islamic finance, because the low level of Islamic financial inclusion in each of these provinces is one of them caused by low Islamic financial literacy. That way the mandate of the Financial Services Authority Regulation No.76 / POJK.07 / 2016 that every Financial Institution must organize Financial Education / Literacy should be more massive.

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APPENDIX

Table. Three Provinces with the Highest and Lowest ISFI Values

Islamic Financial Inclusion Index								
Province	2015	2016	2017	2018	2019	2020	Average	Rank
DKI Jakarta	0.448	0.484	0.535	0.555	0.583	0.580	0.531	1
Nanggroe Aceh Darussalam	0.131	0.402	0.426	0.431	0.482	0.740	0.435	2
D.I Yogyakarta	0.182	0.176	0.184	0.199	0.202	0.208	0.192	3
Maluku	0.019	0.027	0.021	0.023	0.019	0.020	0.022	31
Papua	0.021	0.016	0.016	0.016	0.014	0.010	0.015	32
East Nusa Tenggara	0.004	0.003	0.001	0.001	0.001	0.002	0.002	33

Table. Three Provinces with the Highest and Lowest HDI Values

Gender Development Index								
Province	2015	2016	2017	2018	2019	2020	Average	Rank
DKI Jakarta	94.72	94.98	94.70	94.70	94.71	94.63	94.76	1
North Sulawesi	94.64	95.04	94.78	94.79	94.53	94.42	94.76	2
D.I Yogyakarta	94.41	94.27	94.39	94.73	94.77	94.80	94.51	3
East Kalimantan	85.07	85.60	85.62	85.63	85.98	85.70	85.58	31
West Papua	81.99	82.34	82.42	82.47	82.74	82.91	82.39	32
Papua	78.52	79.09	79.38	80.11	80.05	79.59	79.43	33

Table. Variable Significance Test Running Results

Dependent Variable: IPG
 Method: Panel Least Squares
 Date: 08/09/21 Time: 23:13
 Sample: 2015 2020
 Periods included: 6
 Cross-sections included: 33
 Total panel (balanced) observations: 198

Variable	Coefficient	Std. Error	t-Statistic	Prob.
IFI	7.811120	2.062553	3.787112	0.0002
C	89.43565	0.317156	281.9923	0.0000
R-squared	0.068185	Mean dependent var	90.25278	
Adjusted R-squared	0.063431	S.D. dependent var	3.379815	
S.E. of regression	3.270866	Akaike info criterion	5.218037	
Sum squared resid	2096.919	Schwarz criterion	5.251251	
Log likelihood	-514.5856	Hannan-Quinn criter.	5.231481	
F-statistic	14.34222	Durbin-Watson stat	0.023789	
Prob(F-statistic)	0.000203			