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(AICIF)

VOLUME 1

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PREFACE

بسم الله الرحمن الرحيم

السلام عليكم ورحمة الله وبركاته

The 5TH ASEAN'S INTERNATIONAL CONFERENCE ON ISLAMIC FINANCE (AICIF) was jointly organized by Universiti Islam Sultan Sharif Ali and Co-partners (Universiti Islam Antarabangsa, Malaysia; Universitas Islam Negeri Sunan Kalijaga, Jogjakarta, Indonesia; Universitas Islam Sultan Agung, Semarang, Indonesia; Universitas Darussalam Gontor, Indonesia; Mindanao State University of Philippines; Universiti Fatoni, Thailand) convened at Parkview Hotel, Jerudong, Brunei Darussalam on 13-14 December 2017. The conference centred on six sub-topics, namely, capital market, compliance and governance, Islamic banking, Islamic social finance and Islamic economics.

The 5th AICIF was guided by the three pillars under the vision of ASEAN: A Community of Opportunities that are, ASEAN Political-security Community, ASEAN Economic Community (AEC) and ASEAN Socio-cultural Community. AEC envisions ASEAN as a single market and production base, a highly competitive region, with equitable economic development, and fully integrated into the global economy. AEC can be realized, if ASEAN moves towards free movement of goods, services, and investments as well as freer flow of capital and skills. A free movement of services means that Islamic finance has an important role in realizing such goals.

The discussion on capital market highlighted the instruments that are traded in those market such as mutual funds, shares and sukuk. The discussion also highlighted that capital markets are increasingly interconnected in a globalized economy.

The sub-theme on compliance and governance raised the issues of having a good governance and a complaint based Islamic financial institutions. Both are important to have an impact on the transparency of the guidelines and the performance of Islamic financial institutions.

There are several issues that were reported by several papers in this conference on Islamic banking. Among the issues are: the future demand for Shariah-compliant financial services which remains bright, an effort to establish a complete set of eco-system in Islamic finance that comprises halal products and services, green environment and maqasid shariah, bridging Islamic financial literacy and halal literacy: The way forward is to create a Halal Ecosystem.

The discussion on Islamic social finance covered three main instruments namely waqf, zakat and microfinance. These instruments were recognized as tools to help in realizing the objectives of socio-economic development. The sub-theme on Islamic economics mooted the idea that Islamic finance leads to development. Islamic finance had grown in response to demand or supply. Both might boost the development of Islamic finance (e.g. demand for Islamic financial services and supply of funds for helping the economic development).

Abdul Ghafar Ismail and
Rose Abdullah

Chief Editors

ISLAMIC FINANCIAL INCLUSION ADOPTION IN INDONESIA (A CASE STUDY: A FACTOR ANALYSIS FROM BAITUL MAAL WATTANWIL (BMT) ACTIVISTS)

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ABSTRACT

The aims of the study are to discover factors influencing financial inclusion adoption in Indonesia for realizing justice and welfare. Islamic financial inclusion (IFI) is totally different with Alliance Financial Inclusion (AFI). IFI focus to empowerment while AFI focus to loan. For this purpose, the survey has involved 200 stakeholders who concern to financial inclusion development such as scholars, academicians, government servants; public leaders, NGO's, and businesses by sent the questionnaires. A hundred respondents were considered as qualified data, and then the data were analyzed by using SPSS statistical tool via frequency analysis, factor analysis, reliability test and descriptive analysis. From factor analysis it was found that there were five factors namely institutions and infrastructures (X1), government concern and policy (X2), regulations, cultures and values (X3), financial products and services (X4), natural barriers (X5) that influenced the financial development in Indonesia. Descriptive analysis on the other hand found that government concern and policy was the most influential factors followed by regulations, cultures and values, natural barriers, financial products and services, and Institutions and Infrastructures. The implication of this study provides advantage to stakeholders or any party who involve in the financial inclusion development. This study revealed that the role of government concern is very central and regulations, cultures and values will support the implementation support. For future research is needed to build a model the relation among founded variables, by enhancing number of samples, scope, area, and location.

Keywords: Islamic Financial Inclusion, Poverty Alleviation, Government Policy and Concern.

1. Introduction

Financial inclusion (FI) is a condition in which all people have access to the financial system, not only to banks, but also other financial institutions. These institutions are encouraged to increase the distribution scope of banking services to rural areas (Yesi and Kasmiati, 2013:21). Financial inclusion strategy is indispensable for Indonesia because the financial inclusive level in Indonesia is 32%; this means 68% of the poor are not touched by banking financial services (Mulya E,S, 2012:1). The condition is worse than the exclusive financial world average which is only 55.14% (McKinsey, 2010:10). Disha Bhanot, et.al. (2012:467) stressed that the poor to be excluded because of: access exclusion, i.e. unavailability / remote availability of banking services; price exclusion; condition exclusion i.e. inappropriate conditions attached to financial product; marketing exclusion; and self-exclusion, i.e. cultural/religious/psychological barriers and mistrust etc.

The objectives of financial inclusion in general is focused to serve the poor to better live especially in term of financial access, some literatures (McKinsey, 2010:7), (Chiba, 2009:216), (Radcliffe Dan and Voorhies Rodger, 2012:4-5) introduced the detail aims are: Firstly, all part in the society has same chance to access financial inclusion for both bank and/or other financial institution in order especially the poor has the opportunity to improve their standard of living. Secondly, it has the potential to stimulate social, economic activity and improve the overall quality of life of their citizens and to serve for f*inancial literacy* that is an ability to employ power, skills, and knowledge to ménage financial resources effectively for social-economic welfare continuously. Thirdly, to build a financial model that could be used by providers to develop products that are better to customers' needs, cash flow, risk profiles, fee-for-service offerings and smaller-unit transactions. Fourthly, it is generating the economy digital efficiently by connecting large numbers of poor people to one another, government, financial services, providers, and businesses.

The special objective for Indonesian financial inclusion is primarily focused on poverty alleviation as the poverty scale reached to 11.767% (Central Statistics Agency (BPS), 2014:1). Yet, if the poverty scale uses the World Bank standard size of spending by US$ 2 per day, the poverty rate reaches 43% or about the 103 million (Tempo, 2014:1).

The poverty level is still high because poverty alleviation programs is still not well-arranged, not focus on the target, less oriented toward the weak and unbanked people; and less attention to the medium and small enterprises (MSEs). In addition, the obstacles the poor to access financial assistances to develop business, especially small and medium businesses to be worsen the situation (Mubyarto, in Kodim, Nasrindan dan, Sampurno (2012:8). It is therefore, financial assistance and empowerment for this group is necessary to increase their capability in business sector through MSEs.

In general, many of unbanked, marginalized, poor people and SMEs have difficulties to get services in formal financial sector, because they have problems to meet the standard, mechanism and procedure to fulfill it. To get formal financial services, every entity must have cash flow, accounting system, data history, and others. These sectors usually can't provide these requirements and became financial excluded.

To deal with this problem, some experts proposed the usage of ICT and mobile phone payment system such as Morthi et.al. in Yesi (2013:16) suggested using mobile phone in branchless banking system. In addition, Fuller proposed a bottom-up approach by placing institutions heterogeneous model based on local community (Duncan Fuller et.al, 2014:265). However, the design is not entirely built yet, specifically in researching best mechanism and framework to make this system work.

Global financial inclusion movement under Alliance Financial Inclusion (AFI) in cooperation with Indonesian government intends to implement the model to address poverty problem. The Vision, mission, and strategic has been established by Indonesian president. Moreover, the financial sectors and societies response was overwhelming. However, regardless the high government vision and people responses, most crucial issue is how to develop financial inclusion in Indonesia including the important factors should be involved in the development process. The study about this area is very scarce. Hence, this study aims to investigate factors influence financial inclusion development in Indonesia.

This study intends to discover factors influencing financial inclusion adoption. The next section of this paper will discuss on the theoretical perspective, followed by research methodology, results, discussion and conclusion.

2. Research Methodology

Two hundred and fifty questionnaires were distributed via purposive sampling to the respondents by email as well as post office within one month. Out of those, only 100 were received and usable. The variables were operationalized using self-constructed questionnaires. The variables were measured using five-point Likert type scale anchored from (1) “strongly agree” to (5) “strongly disagree”. The study is descriptive in nature and aim to describe the factors that influence the financial inclusion development in Indonesia. The respondent divided into scholars, academicians, government officers, public leaders, and businesses.

3. Theoretical Perspective

In this session we will discuss scholars’ view and previous research related the supporting and threat factors as well as approach of the financial development in several countries. Related the issue, Chiba (2009) introduced that financial inclusion has important key pillars; private (financial and non-financial) sector development, financial literacy, microfinance and public sector’s support. Financial sector development is well recognized as being a prerequisite to growth and poverty reduction (Hossein and Kirkpatrick, in Chiba, 2009). Financial development is very important which involves; the institutional regulatory, economic dimensions (the medium-long term). Besides that, the role of non-financial private sector is also important to FI development, such as; e-banking and telecommunications, information technology, mobile phone, and servicing the poor to be banked to financial sector.

While NFER (1992) has defined financial literacy, it is as ‘the ability to make informed judgments and to take effective decisions related to the use and management of money. Financial literacy is very crucial particularly in assisting the informed use of microfinance, in promoting involvement in the formal financial sector, and in dealing with the issue of traditions that guide the conduct of many citizens with respect to do financial transactions (Chiba, 2009).

Research regarding the role of microfinance to financial inclusion in average concluded that there is no success FI without micro finance some of them stated that micro finance is the key successful factor to promoting financial inclusion, in some cases give an evident that micro finance is powerful means to facilitate financial inclusion through the soft smart approach for customer to be banked people based on trust. Karlan and Zinman, (2007:24) proven that microfinance provides strong evidence in support of the positive role of microfinance in tackling poverty. Additionally, Jayati, G. (2013:1210) has done a study in the recent literature on microfinance in developing countries and a critical assessment of its effectiveness in India. This study found that the significant role of microfinance sectors for strategies for viable financial inclusion of the poor and of small producers.

In term of the role of public sector and governmentsupport some scholars postulated that it has a central role to facilitate financial inclusion in term of regulations and legislation, policies, procedures, programs and accountability mechanisms. Public sector should be involving in political economy, political will, multipartite negotiations, charters, incentives, and monitoring mechanisms. These items should be authorized by government as related to power of authority and it is not enough private sectors to take over (Chiba, 2008:199). The role also involves the initiative conducting education for people; there is no financial inclusion without education activity. Related the issue Bhave (2014:231) indicated that this activity can reduce the gap between the rich and the poor in India by staging method till 2019 by educating people through financial literacy activity.

Related to the internet branchless banking issue, Yesi, H, S. and Kasmiati, (2013:30) postulated that branchless banking infrastructures can be able to strengthen financial inclusion effort; he believes that branchless banking model the right path. Because, branchless banking is a limited banking service which focuses for serving to unbanked people such as money transfer, saving, insurance, and credit for financing their businesses. Especially marginalized class who don’t have any capabilities to deal with the requirement needed to obtain banking facilities. By branchless banking, it makes possible a bank operates without branch and location physically. Bank location is concentrated in the urban-city as feasibility business consideration such as business potency, infrastructures, market, and externalities which are not available in the rural then the poor to be marginalized and they regard that bank is not for me, then they prefer to the unbanked group.

Moreover, regarding the role of ICT and branchless and mobile banking, there are many more studies in developing countries, i.e. Demish, Ahmed, (2011) founded that Branchless banking systems take advantage of increasingly in term business transactions for poor people live and work and socio-economic impacts. While, the role of mobile phone has been studied in Africa which concluded that the role mobile phone in the digital financial in African countries contributed significantly to economic growth as part of financial inclusion strategy (Mihasonirina, Andrianaivo, 2012:19). In addition, Sankaramuthukumar et.al (2012:121) highlighted from the relationship between user demand side, financial access strategy, and financial usage. He concluded that, there are the direct relationship between financial access strategy and financial usage, to increase financial inclusion can be achieved by increasing some critical elements;

connectivity, convenience, reliability, flexibility and continuity in order to achieve greater financial inclusion in Africa. Connectivity involves politic, geographical, and social perspectives, convenience include transportation, distances and communication. Social and culture should be covered by reliability, flexibility and continuity.

In addition, only one research was detected related the role community for financial inclusion addressed by Fuller and Jonas (2002), basically, this study is important by concluded that the role of community economic agencies is a crucial to combat social and financial exclusion. Basically, this research focuses in credit union community in British which elaborated the role community agency to financial inclusion success.

However, related to the issues which has not been discussed, the most literatures focused on partial research the role pillars financial inclusions, such as ICT, public sector, financial sector microfinance and financial literacy. Acomprehensive research on success factor of financial inclusion did not exist. The study on geographies, social, politics and culture of financial inclusion movement implemented on Indonesia is being neglected. Indonesia is a wide area involves 13,000 populated Islands and around 15,000 km distance point to point. Besides that, customs and culture are very heterogonous around 500 different cultures, customs, believes, and religion. That is why this research will reveal the crucial phenomena by involving comprehensive key factors which is affecting to financial inclusion development.

Furthermore, in this session therefore, it will be analyzed whether the existing literatures does match for Indonesian which has specific criteria of heterogeneity involved wider area in the world and populated by more than 300 million. It can be reviewed as follows:

Table 1. The Financial Inclusion Study

No	Author(s)	Results	The involved factor(s) on the Financial Inclusion development
1	Chiba (2008b) and, (DFID, 2004; Hossein and Kirkpatrick, 2005).	Financial sector development is well recognized as being a prerequisite to growth and poverty reduction. Financial and non-financial private sector development is very important to serve the poor.	Financial and Non-Financial Sector
2	NFER (1992), (Chiba, 2009), Adele and Flore (2013.	Financial literacy as 'the ability to make informed judgments and to take effective decisions related to the use and management of money. The important role of financial literacy to enhance people for financial transactions. Financial literacy strategy has significant impact to financial inclusion development.	Financial Literacy
3	Karlan and Zinman, (2007), Jayati, G. (2013)	Microfinance provides strong evidence in support of the positive role in tackling poverty. Microfinance in developing countries and India as well has the significant role and strategic for viable financial inclusion of the poor and of small producers.	Microfinance
4	Chiba (2008)	The role of public sector support / government has central role to facilitate financial inclusion in term of regulations and legislation, policies, procedures, programs.	Public Sector
5	Bhave (2014)	Educating people on financial literacy activity can reduce the gap between the rich and the poor in India by staging method till 2019.	Financial Literacy
6	Demish, Ahmed (2011), Mihasonirina, Andrianaivo, (2012)	Branchless banking systems take advantage of increasingly in term business transactions for poor people live and work and socio-economic impacts. The role of mobile phone in the digital financial in African countries contributed significantly to economic growth.	ICT – Digital Mobile Financial
	Sankaramuthukumar et.al (2012.	The direct relationship between financial access strategy and financial usage, to increase financial inclusion can be achieved by increasing; convenience, reliability, flexibility and continuity in African countries.	Financial Strategy

Source: Santoso Bedjo (2015).

From Table 1. described there is no direct research which discusses a basic standing for Indonesian financial inclusion development based on geographies, special community, value, customs, regulation, government role, natural barriers, ICT, and traditional institutions.

3.1. Financial Inclusion Strategy in the World Wide

In fact, a study by *World Bank (*2010) shows the effect of the financial exclusion is resources miss allocation. The financial assistance does not touch to the unbanked people who really need, instead, people who have surplus to financial access having more assistance (McKinsey, 2010). The unbalance situation will be sustainable and systemic epidemic. Hence, it needs a preventive strategy that is financial inclusion.

Financial inclusion has been initiated in 112 countries in the globe and just 14 countries are in the maturity stages. However, these countries used the partial approach. The review of 14 countries in term of approach is as depicted in Table 2:

Table 2: Financial Inclusion Development in Several Countries

Country	Implementation Process	The Involved Sectors	Does it employ comprehensive factors?
India	The public sector provides the overall framework, FINANCIAL INCLUSION policy/product guidance from the central bank.	Public sector, Cooperatives, Microfinance, ICT	No
Guatemala, Continental, Banrural, Mexico	Commercial banks offer microfinance services to the unbanked. CEMEX as a private sector non-financial firm assisting the FINANCIAL INCLUSION through a savings and credit scheme for the poor and unbanked people	Private formal financial institution, ICT Provider, Financial sector, Public sector	No
China	Financial literacy in support of effective and efficient microfinance. NGOs to be effective partners for financial literacy and microfinance.	NGO, Interventions of NGOs active in financial literacy	No
Philippines	The Globe Telecom Co., mobile telephone providers offers mobile banking services (bill payment, 'mobile wallets', non-bank accounts and cash transfers) – to the banked and unbanked. Telecommunication service firms are providing cost-effective and efficient financial services to the unbanked, including those in remote areas.	Private-Non-financial Firm, ICT provider, Central Bank, Financial Sector	No
Brazil	Remote and under serviced areas can receive improved access to financial services through private bank collaboration Partnership between private banks and the post office is one effective way to raise up existing infrastructure.	Private and Formal financial institution, Communities	No
Mexico	Bank accounts for the unbanked; funds transfer service for remittances from the US to Mexico's unbanked. This strategic led by central banks to address financial inclusion.	Public sector and Private Sector	No
Kenya, South Africa, Ghana, Nigeria, Maldives, Columbia and Mongolia, South Africa.	Microfinance services and Commercial bank promote FINANCIAL INCLUSION. Microfinance and financial services to promote entrepreneurs, and serving the 'unbanked' people. The role of IFC, World Bank Group, to support FINANCIAL INCLUSION. Technology – e.g., mobile phones, prepaid cards and electronic kiosks – offers a viable medium for FINANCIAL INCLUSION. Guidance from the public sector, the formal financial sector developed a Financial Sector Charter (FSC) for FINANCIAL INCLUSION to serve the poor.	Formal financial institution, ICT Provider, Public sector, Private sectors, Financial and non-Financial firms, ICT provider.	No
Trinidad and Tobago (T&T)	The public sector lead FINANCIAL LITERACY with the central bank as the coordinating agency and with the support of other key stakeholders to support FI.	Public sector, Financial literacy, NGO's	No

Sources: Santoso Bedjo (2015).

From the above Table described 14 cases the financial inclusion models in the world. It described the approach of financial inclusion development which does not in line with Chiba (2009:216) who proposed four pillars theory. For Indonesian model should be involving all pillars such a financial literacy, public sector support, government, and political interest, NGO's, Communities, ICT providers, microfinance, finance public sector, and private sectors. The approach is better to address with the issue of heterogeneity and complex problem of Indonesia.

3.2. Islamic Financial Inclusion (IFI) Versus Alliance Financial Inclusion (AFI)

3.2.1. Islamic Financial Inclusion (IFI) Concept

It is widely recognized that the central economic tenet of Islam is to develop a prosperous, just and egalitarian economic and social structure in which all members of society can maximize their intellectual capacity, preserve and promote their health, and actively contribute to the economic and social development of society. Economic development and growth, along with social justice, are the foundational elements of an Islamic economic system. All members of an Islamic society must be given the same opportunities to advance themselves; in other words, a level playing field, including access to the natural resources provided by God. For those for whom there is no work and for those that cannot work (including the handicapped), society must afford the minimum requirements for a dignified life by providing shelter, food, healthcare and education.

There are three aspects of development in Islam, namely: individual self-development, the physical development of the earth, and human collectivity development, which includes both. In Islam individuals and society are given heavy responsibility by all three dimensions of development——with both held responsible for any lack of development. Balanced development is defined as balanced progress in all three dimensions. Progress is balanced if it is accompanied by justice, both in its general (Adl) and in its interpersonal (Qist) dimensions. To achieve progress on the path-to-perfection by all humans, through rule compliance is the objective of balanced development. The first dimension specifies a dynamic process of the growth of the human person toward perfection.

The second dimension addresses the utilization of natural resources to develop the earth to provide for the material needs of the individual and all of humanity. The third dimension of development refers to the progress of the human collectivity toward full integration and unity. Happiness and fulfillment in a person's life is not achieved by a mere increase in income, but with a full development of a person along all three dimensions. At the same time, economic progress and prosperity is encouraged in Islam since this provides the means by which humans can satisfy their material needs and thus remove the economic barriers on the path to their spiritual progress.

Islam emphasizes financial inclusion more explicitly but two distinct features of Islamic finance – the notions of risk-sharing and redistribution of wealth – differentiate its path of development significantly from conventional financial model. Two types of risks faced by individuals in a society.

The first is the result of the exposure of the economy to uncertainty and risk due to external and internal economic circumstances of the society and its vulnerabilities to shocks. How well the economy will absorb shocks depends on its resilience which will in turn depend on the institutional and policy infrastructure of the society. How flexibly these will respond to shocks will determine how much these risks impact individual lives when they materialize.

The second type of risk individual's face relates to the circumstances of their personal lives. These include risks of injuries, illness, accidents, bankruptcies or even change of tastes and preferences. This kind of risk is referred to as idiosyncratic and when they materialize, they play havoc with people's livelihood. This is because often the level of their consumption that sustains them is directly dependent on their income. If their income becomes volatile, so will their livelihood and consumption. Engaging in risk sharing can mitigate idiosyncratic risk and allow consumption smoothing by weakening the correlation between income and consumption such that should these risks materialize, and the shock reduce income, consumption and livelihood of the individual do not suffer correspondingly.

In a society risks can be shared among its members and/or between its members and its state. People find ways and means of sharing risks to their livelihood, both in the industrial and developing economies. In particular, they use coping mechanisms to increase the variability of their income relative to their consumption. The coping mechanism is investing in financial assets or in acquiring insurance to mitigate against personal risks in more developed financial systems. People in developing countries with weak financial markets, they rely on informal insurance, borrowing or saving to cope with idiosyncratic risks.

As a summary, the various advantages offered by the shariah system compared to conventional systems based on risk-shifting. Use of risk-sharing instruments could encourage investors to invest in sectors such as micro-small-medium-enterprises (MSME) which are perceived as high-risk sectors. Investors with matching risk appetite will be interesting to provide capital to these sectors given the enabling environment. Growing market for the private equity may support this argument. In this system people can expect increased financial inclusion with increased availability of funds for these sectors.

3.2.1. Alliance Financial Inclusion (AFI) Concept

AFI facilitates its members to share and implement their information of policies that the increase access to financial services for the poor. AFI activities involve several types of financial inclusion action, such as; working groups, a membership program, grants, and peer exchange platforms such as yearly global policy forum. AFI membership is open to any financial inclusion including central banks and other financial regulatory institutions. Eighty developing countries have been registered as members where the majority is the world's unbanked.

The AFI movement earn prize very enthusiastic, 108 countries joint as members. They conducted Annual Global Policy Forum (GPF). GFC is a strategic forum to optimize impacts on development by enhancing the arrangement of financial inclusion, financial stability and consumer protection objectives. GPF conference also was attended by 100 central bankers and financial policy makers from developing nations that concern to improve their financial ability. Evolution process of establishment the Financial Inclusion as described on Table 3.

Table 3: Development of Financial Inclusion

Development General Policy (Initiated by Bill & Melinda Gates Foundation Project)	2008	Thailand,)
Design a platform for central banks and other policy making bodies in developing countries	2009	KENYA
Prepare an innovative financial regulatory and policies for increasing access to financial services from developing countries	2010	Bali - Indonesia
Declaration to establish Financial Inclusion as an efforts for poverty reduction and economic stability	2011	Kuala Lumpur Malaysia MAYA Declaration
Provide a Networking AFI Process, Transform AFI from a short-term project into a permanent member, Funded Global Financial Forum (GPF), Making Financial Inclusion Real to Covered Technical Discussions.	2012 GFP was Established	Cape Town, South Africa
Driving a Policy for Optimal Impact and The role of Private Sector in the Financial Inclusion Effort.	2013 GPF	Kuala Lumpur Malaysia

3.2.2. The differences Between IFI and AFI Concept

The positive arguments that support financial inclusion which will build in some developing countries mostly under Alliance Financial Inclusion (AFI) in general, however, there are various debates appeared whether pro and contra to AFI program. The supporting view comes from conventional and Christians micro credit activists. While, the contra argument comes from Islamic micro finance activist such *Baitul Maal wa Tanwil (BMT)*, Cooperatives, and KOPONTREN (Islamic boarding school Cooperative). Moreover, from the Islamic finance activists do agree with some notes. In fact, financial inclusion has been developed under supervision World Bank in cooperated with IMF where these institutions contribute to great suffering during Indonesian crisis in 1998. It is therefore, they have some objections and hesitations on the silent - agenda in this program (Awalyl, 2014:10). These objections can be divided into three aspects: vision-mission, business agenda, and Islamic perspectives. For instances, Mr. Awalyl Rizky, the Vice President of Indonesian *Baytul Maal wa Tanwil* (BMT) Association and Kartiko Wibowo as Central Java President of Local Micro Finance. They argued that, financial inclusion has been developed under AFI has different agenda, mission, concept, and principles of Indonesian micro finance development especially Islamic micro finance such BMT.

From Vision-Mission perspective**,** AFI model has been developed was guessed has some different agenda from IFI. For example, IFI based on Islamic micro credit development strategy that focus to brotherhood, cooperation, and assistantship. On the contrary, AFI has silent agenda to build a global networking toward micro finance liberalism without any value in other word based on materialism value which opposite with Islam (Kartiko, 2014). Moreover, the dissenting argument is supported by the facts; there are several evidences that most World Bank's assistance and involvement in developing countries do not meet to the welfare issue. Instead, some of the World Bank's programs make some difficulties to the current. If it is true, it will make suffer to the *ummah* welfare whether material as well as spiritual welfare. In addition, in term of principles Islamic and conventional financial inclusion is difference, Islamic value based on invest, empowerment, and gift value, and it is not based on debt principles, if person is not able to give, this person is encouraged to make saving little by little after that to be lenders. While, the common financial inclusion program the sense is focus to take benefit by borrowing from financial inclusion (Harjono S, 2014). In other words, AFI encourages consumerism motive while IFI support creating wealth.

3.2. Barriers and Challengers for Financial Inclusion Development

The development of financial inclusion in the world wide has a number of common themes emerge main barriers, supports and factors (Madhur, Jha,. Et.al. (2014):

1. Natural barriers such as geographic, distance and culture which affect to model development, heterogeneity of culture and value, difficulties and cost. Besides that, religious concerns over interest payments can also be a challenge to financial inclusion too low proportion of adults that are '*banked people'* (Demirguc-Kunt, 2012:57).
2. Lack of financial infrastructure involves borrower-lender information access, public credit registries, and private credit bureaus, this lack can be tackled by governments play key role. Besides that, getting credit Strength of legal rights, depth of credit information, public registry coverage, and private bureau coverage consider as factors that influence financial inclusion development.
3. Restrictive regulations. The regulations have important role – to protect consumers and to act as prudential regulators principally concerned with maintaining the integrity of individual institutions and of the financial system as a whole. In other word, they want to limit exploitation of the poor through unfair contracts, fraud, excessive prices and interest rates. In this regard, Kaddu (2014:80) initiated that national and international regulatory policies are often cited as further barriers to broader formal financial inclusion for the world's poorest people. For example, at the national level, banks often require individuals to register themselves in order to meet regulations around the prevention of money laundering and to combat the financing of terrorism.
4. Governance failures. The governance failure indicators that which affect to financial inclusion development are rule of law, regulatory quality, government effectiveness, control of corruption and political stability. While, minimizing corruption and ensuring a stable political environment will mean that better progress can be made towards addressing the key barriers to financial inclusion.
5. Products features. Innovation and creation is the key to perform attractive financial products. Financial products need to be tailored to meet the needs of the poor. Products need to be affordable, available within reasonable physical proximity and regulated to protect consumers, differentiation, segmentation, and design features strategy are important to have better financial product. Besides that, lack of financial literacy among the poorer segments also represents a significant barrier to the access and proper use of formal financial services.
6. Culture and traditional (Juan, 2014) are the most barriers faced by the financial inclusion based on community. However, these obstacles also present as the greater opportunities (Juan, Blanco et.al. 2014). Moreover, Sankar (2013:74) postulated that psychological and cultural barriers also cause to negative Financial Inclusion in India, besides, physical barrier stemming from distance to bank branch or automated teller machine (ATM).

From the above discussed, it is therefore this paper concluded six constrains of the financial inclusion development, and it is assumed as the criteria to evaluate the proposed model. The barriers are: geographic and distance factor, infrastructures and physical facilities, national and global finance regulations, governance failures, products and services features, culture and religion value.

3.3. The Obstacles and Determinants Factors in the Financial Inclusion Implementation.

In this session we derived 32 research indicators based on the literature survey. The method is literature study of previous study and the scholars' view related this model such as Chibba (2008), Demirguc-Kunt, (2012), Sankar (2013), Juan (2014), Kaddu (2014). The 32 indicators have been developed, it will be employed as the questionnaire items of factor analysis in Indonesia.The developed Indicators is shown in Table 3.

Table 3: Research Indicator

No	Threats / Opportunity of Financial Inclusion Development
1	National and international regulatory policies
2	Regulatory quality
3	Government effectiveness
4	Political stability
5	Financial Strategy
6	Corruption
7	Community Value
8	Religious concerns and value' (Demirguc-K, 2012)
9	Merchants / Agents
10	Sankar (2013) Branch and ATM availability
11	Non-Financial firm sector

No	Threats / Opportunity of Financial Inclusion Development
12	Private credit bureaus.
13	Public credit services
14	Heterogeneities (Customs)
15	Borrower-lender information access,
16	Public sector
17	Geographic barriers
18	Culture and traditional
19	Distances
20	Transportation and communication
21	Formal financial sector
22	Community leaders and NGOs

No	Threats / Opportunity of Financial Inclusion Development
23	Banking system
24	Financial literacy
25	ICT
26	Communication Providers
27	Restrictive regulations Kaddu (2014)
28	Development rule of law
29	Non-formal financial sector
30	Micro finance
31	IFC (World Bank financial institution)
32	Product development and innovation

4. Result and Discussion

4.1. Results

In this section aims to disclose several factors that influence financial inclusion development in Indonesia. To deal with the purpose we used factor analysis. Factor analysis attempts to identify underlying variables, or factors that explain the pattern of correlations within a set of observed variables. At the same time factor analysis is often used in data reduction to identify a small number of factors that explain most of the variance observed in a much larger number of manifest variables (Huctheson and Sofroniou, 1999).

From Table 4, the respondents' profile, it was 100 respondents selected via purposive sampling, it comprises of 70 percent male and 30 percent female. In term of age level, most respondents are fall more than 41 years (53%). The respondents are academicians and scholars (35 %) and NGO / financial sectors (30%). Others (business, government servant, Public leader, and politicians comprises of 35 percent. Surprisingly most of the respondents are holding at least master degree. This is might due to the questionnaire items high cognition knowledge.

Table 4. Respondent Profile

Gender and Age	Percent	Sectors:	Percent	Residence:	Percent
Male	70%	Government	9%	Jakarta	11%
Female	30%	Islamic Academician and Scholar	35%	Bandung	7%
Age:		Islamic Business	15%	Surabaya	7%
21 - 30 years old	11%	Islamic Banking Financial	30%	Semarang and Middle Java	40%
31 - 40 years old	35%	Islamic Public Figur	6%	Yogyakarta	20%
41 - 50 years old	45%	Islamic Politician	5%	Outside of Java	15%
51 years old and above	8%				

The next step is factor analysis which isfinding the main factor that most influence the dependent Variable by a series tests conducted on independent Variable as factor. The steps are as follows:

a. Correlation between independent Variables

The correlation between independent Variables should be strong greater than 0.5 and the significant level is 0.05. Correlation between independent Variables is shown in the output KMO and Bartlett's Test, as follows:

Table 5: KMO and Bartlett's Test

KMO and Bartlett's Test	
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.	0.774909
Bartlett's Test of Sphericity. Approx. Chi-Square	4327.71
Df	396
Sig.	0

From the above results obtained KMO value of 0.774909, which is greater than 0.5. Meanwhile, the significant level is 0.000. Hence, it can be said that the sample and Variables used are allowed to further analysis.

1. Testing to the entire correlation matrix (correlation between Variables). It is measured by the Bartlett Test of Sphericity or Measure Sampling Adequacy (MSA). Correlations between the independent Variables are shown by Anti-Image Matrices Table. The value of MSA is marked by [a], as shown in Table 6.

Table 6: Anti-Image Matrices

IND_00001	0.7832[a]	IND_00012	0.7916[a]	IND_00023	0.7995[a]
IND_00002	0.7830[a]	IND_00013	0.7914[a]	IND_00024	0.7995[a]
IND_00003	0.7834[a]	IND_00014	0.7913[a]	IND_00025	0.7996[a]
IND_00004	0.7832[a]	IND_00015	0.7914[a]	IND_00026	0.7993[a]
IND_00005	0.7835[a]	IND_00016	0.7913[a]	IND_00027	0.7995[a]
IND_00006	0.7835[a]	IND_00017	0.5865[a]	IND_00028	0.7994[a]
IND_00007	0.7834[a]	IND_00018	0.7913[a]	IND_00029	0.7998[a]
IND_00008	0.7833[a]	IND_00019	0.5871[a]	IND_00030	0.7996[a]
IND_00009	0.7833[a]	IND_00020	0.5217[a]	IND_00031	0.7994[a]
IND_00010	0.7835[a]	IND_00021	0.7917[a]	IND_00032	0.7995[a]
IND_00011	0.7834[a]	IND_00022	0.7885[a]		

Based on the above MSA indicates that all of the independence Variable can be analysed to the next steps as all value MSA > 0.5.

b. Grouping Factor

The next step is to determine whether the independent variables can be grouped into one or more factors. From the 32 Existing variables can be formed into 5 factors because the value of Initial Eigen values (total) fulfills the requirements (The value should be greater than 1). Factor 1,2,3,4 and 5 are fulfilling the requirement. Total Variance Explained is shown in Table 7.

Table 7: Total Variance Explained

Factor	Initial Eigenvalues		Extraction Sums of Squared Loadings				Rotation Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	17.44	54.78	54.29	16.95	53.58	53.10	5.85	18.57	18.40
2	2.18	6.81	60.77	1.81	5.65	58.76	5.21	16.29	34.59
3	1.40	4.43	65.20	1.07	3.32	62.06	4.82	14.93	49.58
4	1.15	3.58	68.75	0.81	2.42	64.56	3.62	11.37	60.80
5	1.06	3.32	72.04	0.60	2.10	66.59	1.81	5.84	66.59

c. Loading Factor

The next step is to determine to which factor each independent variable will be grouped. Table 8 shows Rotated Component Matrix. The dark cells display the greatest correlation value in each row.

Table 8: Rotated Component Matrix [a]

	1	2	3	4	5			1	2	3	4	5
IND_00001	0.321	0.644	0.320	0.319	(0.143)		IND_00017	(0.074)	(0.133)	0.122	0.047	0.590
IND_00002	0.428	0.649	0.196	0.212	(0.092)		IND_00018	0.425	0.211	0.435	0.210	0.045
IND_00003	0.214	0.651	0.430	0.316	0.003		IND_00019	(0.041)	0.060	(0.028)	(0.155)	0.861
IND_00004	0.214	0.861	0.318	0.212	(0.306)		IND_00020	(0.026)	0.475	(0.197)	0.051	0.870
IND_00005	0.216	0.645	0.432	0.210	(0.153)		IND_00021	0.644	0.426	0.322	0.217	(0.051)
IND_00006	0.325	0.553	0.428	0.218	0.069		IND_00022	0.603	0.059	0.056	0.148	(0.170)
IND_00007	0.215	0.216	0.652	0.318	(0.046)		IND_00023	0.326	0.210	0.211	0.326	0.024
IND_00008	0.321	0.218	0.756	0.165	(0.031)		IND_00024	0.579	0.317	0.430	0.434	(0.063)
IND_00009	0.651	0.425	0.319	0.185	(0.035)		IND_00025	0.602	0.430	0.211	0.428	(0.068)
IND_00010	0.573	0.324	0.322	0.430	0.048		IND_00026	0.645	0.180	0.217	0.318	(0.306)
IND_00011	0.754	0.317	0.210	0.178	0.239		IND_00027	0.321	0.113	0.325	0.323	(0.089)
IND_00012	0.435	0.431	0.317	0.320	(0.055)		IND_00028	0.119	0.320	0.647	0.322	0.009
IND_00013	0.585	0.555	0.212	0.322	(0.314)		IND_00029	0.318	0.317	0.327	0.654	(0.050)
IND_00014	0.427	0.426	0.650	0.207	0.315		IND_00030	0.427	0.322	0.216	0.643	0.114
IND_00015	0.644	0.430	0.216	0.209	(0.008)		IND_00031	0.159	0.326	0.426	0.576	(0.108)
IND_00016	0.594	0.318	0.431	0.211	(0.154)		IND_00032	0.212	0.191	0.116	0.429	(0.027)

[a] Extraction Method: Principal Axis Factoring. Rotation Method: IND_imax with Kaiser Normalization.
[a.] Rotation converged in 6 iterations.

d. The final step is naming of the founded factors as described in the following table:

Table 9: Determining Factors

No	Factor's Group		Factor (X)
	Code	Name	
1	IND_9, IND_10, IND_11, IND_12, IND_13, IND_15, IND_16, IND_21, IND_22, IND_24, IND_25, IND_26	Merchants / Agents, Branch and ATM availability, Private Sector (Non-Financial Firm), Private credit bureaus, Public credit services, Borrower-lender information access, Public Sector, Formal Financial Sector, Community leaders and NGOs, Financial literacy, ICT, Communication Providers	Institutions and Infrastructures (X1)
2	IND_1, IND_2, IND_3, IND_4, IND_5, IND_6	National and international regulatory policies, Regulatory quality, Government effectiveness, Political stability, Financial Strategy, Corruption	Government Concern and Policy (X2)
3	IND_7, IND_8, IND_14, IND_18, IND_27, IND_28	Community Value, Religious concerns and value, Heterogeneities (Customs), Culture and traditional, Restrictive regulations, Development rule of law.	Regulations, Cultures and Values (X3)
4	IND_23, IND_29, IND_30, IND_31, IND_32	Banking system, Non-formal financial sector, Micro finance, IFC (Global financial, Product Innovation and creation	Financial Products and Services (X4)
5	IND_17, IND_19, IND_20	Geographic barriers, Distances, Transportation and Communications	Natural Barriers (X5)

From the above result, it can be described that the success factor for financial inclusion implementation have some variables namely X1, X2, X3, X4 and X5. These variables will be used criteria for establishing the accurate financial inclusion in Indonesia.

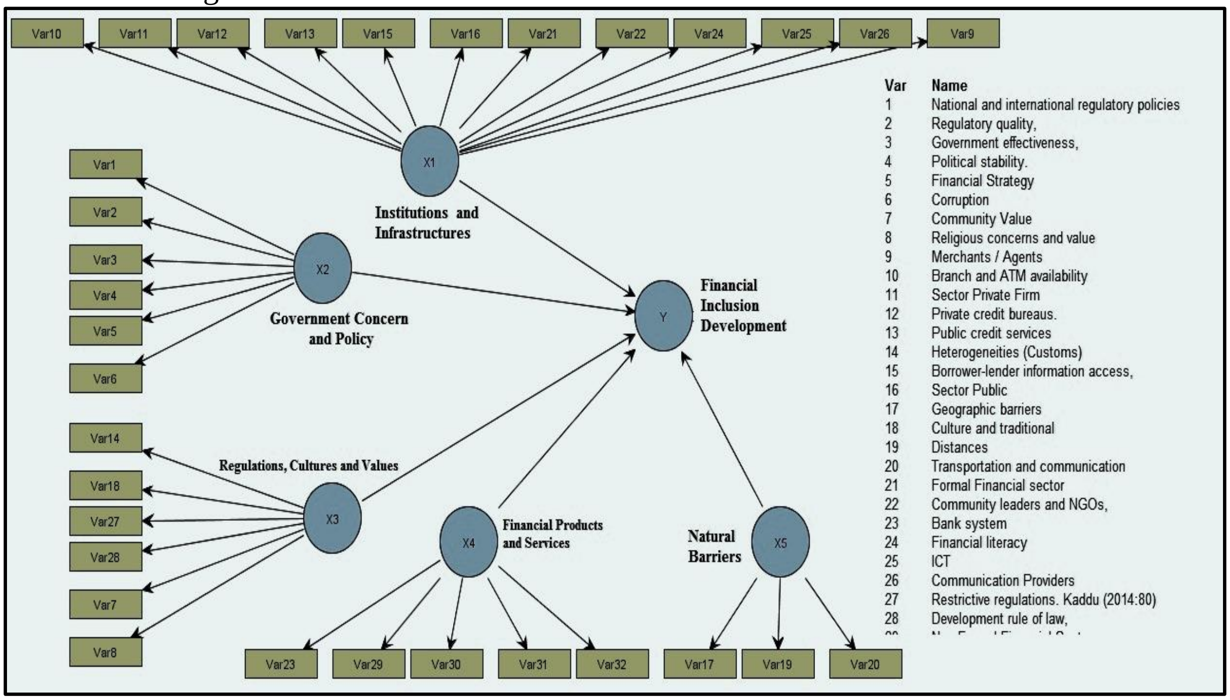
4.2. Descriptive Analysis

Table 10. Descriptive Analysis Variables Ranking

	N	Minimum	Maximum	Mean	Std. Deviation	Rank
Government Concern and Policy (X2)	100	1	5	4.66	0.46	1
Regulations, Cultures and Values (X3)	100	1	5	4.34	0.46	2
Natural Barriers (X5)	100	1	5	4.30	0.51	3
Financial Products and Services (X4)	100	1	5	4.19	0.44	4
Institutions and Infrastructures (X1)	100	1	5	3.93	0.66	5
Overall				4.28	0.51	
Highest Value ≥				4.54*		
High Value ≥				4.28**		
Low Value <				4.28***		
*) Highest Value ≥ mean +0.5*Std. Dev.,**) High Value ≥ mean,***) Low Value < Mean						

Table 10 shown, the government concern and policy (X1) is the most influenced factor for financial inclusion implementation in Indonesia. Then, followed by regulations, cultures and values (X3), natural barriers (X5), financial products and services (X4), and institutions and infrastructures (X1)

Figure 1. The Influenced Variables to Financial Inclusion in Indonesia



The above figure displayed that there are relationbetween financial inclusion development and institutions and infrastructures (X1), government concern and policy (X2), regulations, cultures and values (X3), financial products and services (X4), and natural barriers (X5), however it needs further research to elaborate the relationship.

4.3. Discussion

This study was designed to determine the factors that influence the financial inclusion development in Indonesia. A comprehensive profile analysis had been done in order to get the actual data. Statistical analysis from factor analysis proved that four factors influenced the financial inclusion development in Indonesia.

First factor is institutions and infrastructures (X1). This factor is measured by 12 indicators that are: merchants / agents, Branch and ATM availability, private sector (non-financial firm), private credit bureaus, public credit services, borrower-lender information access, public sector, formal financial sector, community leaders and NGO's, financial literacy, ICT, and communication providers. The result of the present study is consistent with Chibba (2009), Khalif RA (2015), Yesi, H, S. and Kasmiati, (2013), Demish, Ahmed, (2011) who found that these infrastructures such as ICT and mobile phone are crucial factors for financial inclusion development. Besides that, it is fitting with India experience. Besides that, the role of micro finance should be central in the financial inclusion development, as in this moment micro finance has played agent of development for poverty alleviation in Indonesia. Especially Islamic micro finance such as BMT (*Baytul wa Tanwil*) (Harjono K, 2015). This finding is consistent with India and Bangladesh experience in term of financial inclusion establishment.

The second factor is government concern and policy (X2). This factor has six indicators, namely; national and international regulatory policies, regulatory quality, government effectiveness, political stability, financial strategy, and corruption level. This finding consistent with Chibba (2008), Kasmiati (2013), and Trinidad and Tobbago experience. These finding declared that public sector is the most crucial factor for implementing financial inclusion. This result is concordance with Suharo U (2015) statement that in term of poverty alleviation program the sustainable and integrated government program is needed particularly in the financial aid, attitudes, and financial literacy.

Regulations, cultures and values (X3) is the third factor. It has six indicator includes; community value, religious concerns and value, heterogeneities (customs), culture and traditional, restrictive regulations, development rule of law. The fourth factor is financial products and services (X4). This factor has been measured by banking system, non-formal financial sector, and micro finance, IFC (global financial, product innovation and creation. Regulation, culture and value are important because these factors will accelerate the financial inclusion working faster and in the right path.

Lastly, Natural Barriers (X5): this factor involved geographic barriers, distances, transportation and communications. The result is in line with Demirguc-Kunt, (2012) who found that geographic, distance and culture, and heterogeneity of culture and value affected the financial inclusion development. This factor needs more emphasized attention, it is consistent with the fact that Indonesia is the unique archipelago which means very large and long distance from the begin point to the end point around 14,000 km involve 13,000 populated Islands, hence very difficult to develop best model of financial inclusion in Indonesia.

In addition, government concern and policy (X2) is the most influenced factor for financial inclusion implementation in Indonesia. Then, followed by regulations, cultures and values (X3), natural barriers (X5), financial products and services (X4), and institutions and infrastructures (X1). This finding means that any party should pay may attention in government concern and regulations, cultures, and values for developing financial inclusion in Indonesia. In addition, natural barriers and design financial products also important factors.

In general, result from respondent suggestion show that majority of the respondents are waiting and support the program initiated by government. The support from respondents could be serious participation and willing to involve in the financial inclusion development as the respondents believe that there are strong correlations between poverty alleviation and financial aid and financial inclusion system.

The implication of the findings from this study is significant for stakeholders and party such as government, public sector, financial sector, private sector and NGO's who involve for developing and designing financial inclusion in Indonesia. Indonesia is a unique country which is very large and wide area, besides that it includes a thousand populated islands very far distance each other, government should pay attention to their role as central agent. In addition, community based, culture and values should be considered in the implementation process. Moreover, ICT may be involved in the financial inclusion implementation in appropriate manner.

For further research, it is suggested difference perspective such as scope, location and time should also be considered. Number of samples should be increased in order to have a better generalization. Area sampling should be employed involving 33 provinces of Indonesia. Future research could also be investigated focusing on the effectiveness, process, and strategy in every stage of implementation process. Moreover, further research should find out the relation model among six resulted variables as above mentioned, Structural Equation and Modeling (SEM) may use to examine the indicator of each variables.

6. Summary and Concluding Remark

In Islamic finance sets the principle for risk, prudence, and ethics. Plus, supported by a strong and tough regulatory system. Therefore, IFI is aimed at sustainable economic development. IFI developing based on Islamic micro credit development strategy that focus to brotherhood. In addition, islamic value basen on invest, empowerment, and gift value, and it is not based on debt principles, if person is not able to give, this person is encouraged to make saving little by little after that to be lenders which support creating wealth. While, AFI developing has has silent agenda to build a global networking toward micro finance liberalism without any value in other word based on materialism value which opposite with Islam and the sense is focus to take benefit by borrowing from financial inclusion which encourages consumerism motive.

This study was designed to determine the factors that influence the financial inclusion development in Indonesia. Statistical analysis from factor analysis proved that four factors influenced the financial inclusion development in Indonesia. This study concludes government concern and policy (X2) is the most factors in the financial inclusion development, followed by regulations, cultures and values (X3), natural barriers (X5), financial products and services (X4), and Institutions and Infrastructures (X1). The implications from this research will provide advantage to stakeholders or any party who involve in the financial inclusion. The research revealed that the role of government concern is very central includes national and international regulatory and policies, regulatory quality, government effectiveness, political stability, financial strategy, and corruption level.

The second ranking is regulations, cultures and values (X3) involve six indicators; community value, religious concerns and value, heterogeneities (customs), culture and traditional, restrictive regulations, and development rule of law. This result clues that government and regulation can be the important factor for developing financial inclusion in Indonesia.

For future research is needed to build a model the relation among the variables, namely financial inclusion development as dependent variable (Y) and institutions and infrastructures (X1), government concern and policy (X2), regulations, cultures and values (X3), financial products and services (X4), natural barriers (X5) as independent variables. Moreover, financial inclusion model for Indonesia is very special; hence need special design in order to be accepted by society and the poor. Community should be involved in the implementation process. The further study, how to implement financial inclusion effectively. Besides that, the difference perspective such as scope, location and period should be looked at. Number of samples should be increased in order to have a better generalization.

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