Elsewhere in these two nations, SMEs are much regarded as "unsung heroes" as they play significant economic and social roles by offering new job opportunities, lowering unemployment rate, increasing competition and productivity, and providing substantial benefits to the economy of the two countries, Malaysia and Indonesia alike. The SMEs in both the neighboring nations are considered to be the backbone of the modern-day economy. Thus, it is far from being a surely not a "fish bone" anymore. The importance of this segment is undisputed. For instance, a total of 98.5 percent of the Malaysian business establishments are SMEs. In 2017, these businesses were responsible for 37.1 percent of the country's GDP, 66 percent the total employment of the country, and 17.3 percent of the total Malaysian export. The annual growth of these SMEs' contributions towards the GDP, employment and export are 7.2 percent, 3.4 percent and 7.9 percent respectively. A more or less similar example can be illustrated for the Indonesian counterpart. The importance of MSMEs in the Indonesian national economy has been well noted. There are more than 56.8 million MSMEs establishments and they consist of approximately 99.9 percent of the total number of enterprises. It can be further emphasized that within MSMEs, microenterprises seem to be more dominant compared to small and medium enterprises. It covers about 98.7 percent, while small and medium enterprises represent only about 1.13 percent and 0.09 percent respectively.

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CHAPTER

04

MEASURING SHARIA FINANCIAL INCLUSION: Evidence From Indonesia

By: Atika R. Masrifah, Khoirul Umam, Yusof Ismail, Bedjo Santoso, and Lilies Setariti

ABSTRACT

Micro Enterprises' (MEs) contribution towards absorbing the labor for about 88.90% of total enterprises in Indonesia, but almost all MEs called as an unbanked or non-bankable people. This chapter aims to calculate and analyse the Index of Syariah Financial Inclusion (ISFI) covering two dimensions; the accessibility and the usage of Islamic financial services, using field survey. Assessing 250 household of MSMEs across the region in Indonesia, this paper found that the utilisation of Islamic financial institutions, even cooperative, is generally low in Indonesia (0.384 for usage dimension and 0.438 for accessibility dimension). It has been proven by the respondents' profile that MSMEs prefer conventional loan (75%), while others (25%) prefer Islamic financing. Furthermore, the results show that the enterprise's source of financing at the first time is different from the last condition significantly when the survey was conducted. MSMEs prefer to use loans from relatives, their personal saving, rotating scheme and even loans from moneylenders. This study recommends that the education and promotion of Sharia Financial Inclusion be given a policy priority in Indonesia to gain the main goals of financial inclusion, inclusive growth, welfare as well as economic development.

JEL Classification: G2, G21, O17

Keywords: Financial Inclusion, Sharia Financial Inclusion Index, MSMEs

1. INTRODUCTION

Several data show the significance of MEs' contribution towards absorbing about 88.90% of the labor in 2013, placing MEs far above everything in the Statistics of Micro, Small and Medium Enterprises in Indonesia, and especially, therefore, above large enterprises (3.01% in 2013). The MEs' sector also contributed about 36.90% towards the growth of domestic product in 2013. This is almost close to the contribution of large enterprises (39.66%) towards GDP. Moreover, the MEs sector has not been able to contribute much to exports (1.38% in 2013).

TABLE 4. 1 STATISTICS OF MICRO, SMALL AND MEDIUM ENTERPRISES*

	Number		GDP	Labor		Export*
Micro	57.189.393	98.77%	36.90%	104.624.466	88.90%	1.38%
Small	654.222	1.13%	9.72%	5.570.231	4.73%	2.76%
Medium	52.106	0.09%	13.72%	3.949.385	3.36%	11.54%
Large	5.066	0.01%	39.66%	3.537.162	3.01%	84.32%
MSMEs	57.189.393	98.77%	36.90%	104.624.466	88.90%	1.38%

Source: *Ministry of Cooperation and SMEs; *2013 data.*

Despite the statistical success of MEs, there is an unresolved matter that need to be further consideed and this unresolved matter is that members of MEs are referred to as "nonbanked" or "non-bankable" people. MEs have always been in difficulties to access financing from the banking industry (conventional as well as Islamic financial institutions) for several reasons. The financial access to formal financial institutions is still relatively low. This is based on a World Bank survey which shows that only 20% of people use the services of formal financial institutions, while in the household sector, only 49% of the total national households (Karim, 2014).

In the Household Balance Sheet Survey 2011 conducted by Bank Indonesia, it was also found that the percentage of household saving in formal and non-formal financial institutions was 48%. Thus the people who do not have savings accounts are still relatively very high at 52%. The condition of people who have not utilised the services of formal financial institutions is a significant market which can become the target market, because unbanked people are not 100% because they are unbankable and they also need loans.

Based on this background, this chapter attempted to analyse the prospects for expanding ûnancial access to the MSMEs, and the authors assessed 250 MSMEs in several regions in Indonesia to judge their level of financial inclusion. Using the indicator of financial inclusion from several sources, this chapter measured the level of Sharia financial inclusion across regions in Indonesia.

The highlights of this article are as follows: (1) improvements in measuring Sharia financial inclusion, and (2) proposing of feasible ways to enhance the prospect of Islamic finance institutions for MSMEs.

This chapter is organized as follows: Part II provides a brief review on the framework of Islamic microfinance and financial inclusion which is in accordance with Islamic perspective. Part III discuss the data and methodology to create an index of Sharia financial inclusion (IFI) to measure Sharia financial inclusion. Part IV presents the measurement results and discusses the results. Section V concludes the chapter.

2. LITERATURE REVIEW

Islamic microfinance could be pointed to microfinance in Islamic view. Profit oriented is the main goal in conventional microfinance, while Islamic microfinance can not only stand for profit orientation but also for social orientation. Therefore, this part will question a brief review on the framework of Islamic microfinance by first questioning microfinance in common, then microfinance which is in accordance with Islamic view.

There are many studies which have focused on the definitions of microfinance. Some of these studies include, among others, Abdul-Rahman (2007), Khan (2008), Kaleem and Ahmed (2010), as well as Shahinpoor (2009). In summary, microfinance could be defined as making minor loans prepared for poor people through programmes designed in particular to fulfill their particular needs and circumstances.

Lower poor, poor, and upper poor are also vulnerable and nonpoor people who work in informal sector or micro enterprises become the main customer of microfinance. The poor mainly start their own micro enterprises out of needs, because of the lack of jobs that they find suitable. However, some of them are actually entrepreneurs, and they enjoy producing and running their own businesses.

Furthermore, there is growing studies addressing the definition of financial inclusion, and among others are studies by Beck, Demirguc-Kunt and Martinez Peria (2007), Sarma (2008), Demirguc-Kunt and Klapper (2012), as well as Chakravarty and Pal (2013). Financial inclusion, which means the delivery of financial services at affordable costs to sections of the disadvantaged and low income segments of the society, is an integral part of Islamic microfinance to provide various Islamic financial services that are needed (Obaidullah (2008:p.13-24); Consultative Group to Assist the Poor Helms (CGAP, 2006: p.27). Moreover, according to CGAP (2010:p.16), financial inclusion refers to a state in which all working age adults have effective access to credit, savings, payments, and insurance from formal service providers.

Moreover, CGAP has also built some principles into the framework for an inclusive financial system. That framework is divided into three levels of financial system, namely: micro, meso and macro (see figure 2.1). It recognses that more people will have access only if financial services for the poor are integrated into all three.

FIGURE 4. 1 AN INCLUSIVE FINANCIAL SYSTEM[1]
Source: Helms (CGAP, 2006: p.14)

The hub of micro financial systems that work for the poor is on building market places, where numerous strong and viable financial service providers compete for the business of the poor and the low-income people. These micro financial service providers ideally gain financing from funding sources. However, up to now microfinance has depended heavily on external donor funding, even international donor funding. In fact, international funding could be helpful at all levels of the financial system—micro, meso, and macro—to jump-start and speed up the process of building market places.

In this article, we agree with the definition of financial inclusion. This means that everyone not only has access to financial services but also can enjoy various types of financial services, such as saving deposits, time deposits, financing, payment, and other products and services of financial institutions.

The measure of Sharia financial inclusion in this paper covers two dimensions; the accessibility and the usage of Islamic banking services. Moreover, to avoid correlations between dimensions (in Sarma (2008), 'accessibility' is similar to 'availability', which may cause multicollinearity in the calculations), the authors have used two indicators, namely, the accessibility and the usage of Islamic banking services. The authors have also differentially weighted every dimension.

TABLE 4.

Categories	Indicator	Existing global source (if relevant)	Dimension of financial inclusion measured
Formally banked adults	%of adults with an account at a formal financial institution	Global Findex	Access,usage
	Numer of depositors per 1000 adults OR number of deposit accounts per 1000 adoults	IMF FAS	
Adults with credit by regulated institutions	% of adults with at least one loan outstanding from a regulated financial institution	Global Findex	Access,usage
	Number of borrowers per 1000 adults OR number of outstanding loans per 1000 adults	IMF FAS	
2 Formally banked enterprises	% of MSEs with an account at a formal financial institution	WB enterprise surveys	Access,usage
	deposit accounts OR number of SME depositors/number of depositors	IMF FAS	
Enterprises with outstanding loan or line of credit by regulated institutions	%of SMEs with an outstanding loan or line of credit	WB enterprise surveys	Access,usage
	Number of SMEs with outstanding loan/number of outstanding loan OR number of outstanding loans to SMEs/ number of outstanding loans	IMF FAS	
Points of service	Number of branches per 100000 adults	IMF FAS	Access

INDICATORS OF FINANCIAL INCLUSION
Source: *Global Findex; IMF FAS; WB enterprise surveys; modified by Authors*

Access: This measure evaluates the outreach of sharia financial services. In this chapter, the authors measured the access to sharia finance mainly by using the perception questionnaire, and this questionnaire used the likert scale, namely, 1) Not Accessible; 2) Can be accessed; 3) Neutral; 4)Accessible; 5) Satisfied with the Accessibility. However, some reference conclude that commercial banks take a leading role in providing access to finance.

Usage: This measure evaluates the frequency with which customers use sharia financial services. Indicators of this dimension are developed from saving deposits, time deposits, financing, payment, and other products and services of financial institutions, which are key functions of finance. In this chapter, the authors also measured the frequency of the usage to sharia finance mainly using the perception questionnaire and the scale of measurement used the likert scale, namely, 1) Rare; 2) Unlikely; 3) Possible; 4) Likely; and 5) Almost Certain. Table 2.1 shows all the indicators considered in the index based on some literature.

With regard to financial inclusion, several studies have tried to measure the extent of inclusive finance found in several countries. Honohan (2008) used an econometric approach by combining

survey based data and secondary data to estimate the proportion of households that can access formal financial services or services in 160 countries in the world. Honohan found that the financial access index significantly affected to reduce income inequality.

The study of Beck et al. (2007) in 99 countries in 2003-2004 showed that the factors that determine the reach of the financial sector are the same as the factors that determine the depth of the financial sector. These factors are the level of development which is proxied by GDP per capita, the quality of institutions that is proxied by governance index, and credit information that is proxied by credit information index.

Demirguc-Kent and Klapper (2012), in a study that measured the use of adult financial products (micro level) in 148 countries in 2011, found that 50% of adults worldwide (samples) used formal financial services, and more than 2 5 billion adults worldwide do not have formal financial services accounts. However, partial and incomplete information from micro-level analysis can lead to misinterpretations of the macro perspective.

Sarma (2012) developed a method for calculating the Index Financial Inclusion (IFI) that can be used to compare the level of financial inclusion between countries or provinces in a country over a certain period of time. This method fulfills the assumptions of comparability, mathematical property, and three dimensions (accessibility, availability, and use of banking services). The low IFI is indicated by the low income of the middle class, while most high-income countries have high IFIs.

Sanjaya and Nursechafia (2016) in their research measured and analysed the level of inclusive finance and inclusive growth in Indonesia. The study found that inclusive finance in Indonesia was strongly influenced by the dimensions of accessibility, while the dimensions of availability and use only had a small proportion. This brings us to the conclusion that the poor are quite limited in utilising financial sector services.

Umar (2018) measured the Index of Syariah Financial Inclusion (ISFI) covering three dimensions: the availability, the accessibility, and the usage of Sharia banking services. Using the annual data at the provincial level during 2010-2015, this paper found that the Index of Sharia Financial Inclusion was generally low and Bangka Belitung was the most financially inclusive province of Indonesia. Furthermore, this conclusion suggests the promotion of Sharia Financial Inclusion to be a policy priority in Indonesia to achieve the central goals of inclusive growth, welfare and economic development.

3. RESEARCH METHOD

This chapter applied quantitative methods, namely, chi-square test, correspondence analysis and paired samples t-test, which needed qualitative data. Chi-square test method was applied to evaluate whether there is a significant association between the groups of the two variables. Moreover, correspondence analysis is not much different from chi-square test. Correspondence analysis provides a graphic method of exploring the association or relationship between variables in a contingency table. The primary data needed in this chapter were obtained from field survey in several regions in Indoensia, where 250 MSMEs were selected from customers of Islamic and Conventional financial institutions, including those who received loans from conventional financial institutions and financing from Islamic financial institutions, as well as those who did not receive any loan or financing.

Moreover, this chapter also used the Index of Sharia Financial Inclusion (ISFI) method developed by Sarma (2012) in analysing and measuring the Index of Sharia Financial Inclusion in Indonesia, where the research variable used refers to the dimension of measurement of ISFI, namely, accessibility and usage. The authors measured each indicator by using the following formula (Wang and Guan, 2017: p.1754).:

$$x_{ij} = \frac{A_{ij} - m_{ij}}{M_{ij} - m_{ij}}$$

where x_{ij} is the transformed value of indicator j in dimension i; A_{ij} is the actual value; M_{ij} and m_{ij} are the maximum and minimum of each indicator, respectively. After transformation, the value of each indicator lies between 0 and 1. The ISFI in dimension i is computed as follows (Wang and Guan, 2017: p.1754).:

$$ISFI_i = 1 - \frac{\sqrt{w_{i1}^2(1 - x_{i1})^2 + w_{i2}^2(1 - x_{i2})^2 + \cdots + w_{in}^2\,(1 - x_{in})^2}}{\sqrt{(w_{i1}^2 + w_{i2}^2 + \cdots + w_{in}^2\,)}}$$

(3)

where x_{ij} is the transformed value ($0 < x_{ij} < 1$). w_{ij} stands for the weight of indicator *j* in dimension *i*. In contrast to those scholars who set weights subjectively (Sarma, 2008; Chakravarty and Pal, 2013; Wang and Guan, 2017), in this chapter, the authors measured the weight with an objective weighting method called CV (i.e. coefficient of variation). CV was initially used in probability theory and statistics to measure the dispersion in a probability distribution or frequency distribution and is defined as the ratio of the standard deviation *ó* to the mean value *ì*. Thus, the weight of each indicator is defined as the proportion of its CV to the sum of all indictors' CV numerically. That is, (Wang and Guan, 2017: p.1754)

$$w_{ij} = \frac{V_{ij}}{\sum V_{ij}}$$

where w_{ij} stands for the weight of indicator *j* in dimension *i*, and v_{ij} stands for the CV. Then, the final IFI is computed using the following formula (Wang and Guan, 2017: p.1754):

$$ISFI = 1 - \frac{\sqrt{w_i^2(1 - ISFI_1)^2 + w_2^2(1 - ISFI_2)^2}}{\sqrt{(w_1^2 + w_2^2)}}$$

where w_1 and w_2 are the weight of dimension 1 (access) and 2 (usage), and the computation follows the CV method. The aim of this chapter was to measure the level of Sharia financial inclusion across regions in Indonesia, as well as to analyse the prospects for expanding ûnancial access to the MSMEs. Moreover, this chapter can propose the feasible ways to enhance the prospect of Islamic finance institutions for MSMEs. This chapter covers three groups of MSMEs which are customers of Islamic and conventional financial institutions.

Based on the literature review summarized above, the research framework of this chapter can be seen in figure 3.1. There are two variables, namely: 1) Accessibility; and 2) Usage, which can be used to calculate the Index of Sharia Financial Inclusion. Moreover, this chapter also used chi-square test, correspondence analysis and paired t test to describe the respondents profile of MSMEs.

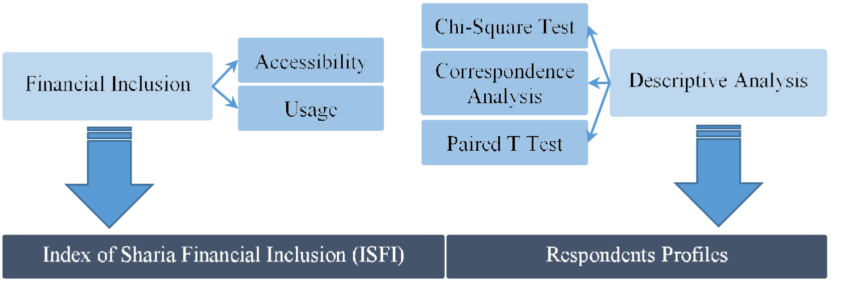


FIGURE 4. 2 RESEARCH FRAMEWORK

4. RESULTS AND ANALYSIS

There are three categories of respondents' profiles, viewed from: 1) Scale of Enterprises: Micro Enterprise (MEs; 191 respondents); Small Enterprise (SEs: 54 respondents); and Medium Enterprise (MDEs; 5 respondents); 2) Source of financing: MSMEs which received financing from conventional banks (188 respondents) and MSMEs which received financing from Islamic banks (62 respondents); and 3) Profit performance: MSMEs whose net profit increased for the last three years (108 respondents); MSMEs whose net profit was stagnant for the last three years (128 respondents); and MSMEs whose net profit decreased for the last three years (14 respondents).

TABLE 4. 3 GROUPING OF RESPONDENT PROFILE

	Shariah	Convent.	TOTAL
MEs	41	150	191
SEs	19	35	54
MdEs	2	3	5
TOTAL	62	188	250

	Decrease	Stagnant	Increase	TOTAL
MEs	11	100	80	191
SEs	3	25	26	54
MdEs	0	3	2	5
TOTAL	14	128	108	250

Table 4.2, which is based on Chi-Square (association) tests, shows that MSMEs are very diverse business enterprises, which have almost no specific significant association revealing their business patterns.

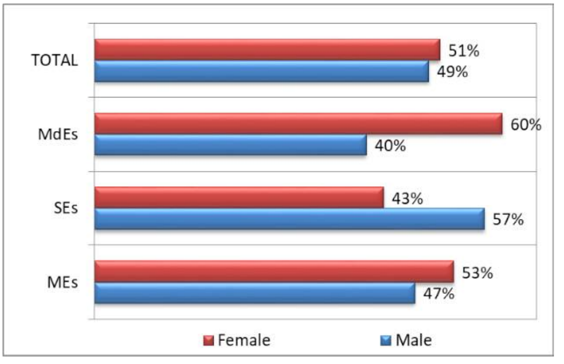
TABLE 4. 4 SUMMARY OF RESPONDENT PROFILE'S ASSOCIATION (CHI-SQUARE) TESTS

	Employees	Gender	Age	Education	Expertise	LegalForm	Sector
Scale of enterprises	**0.090**	0.376	0.619	0.694	0.742	0.284	0.733
Source of financing	**0.000**	0.188	**0.016**	**0.024**	0.174	**0.000**	**0.008**
Profit performance	**0.004**	0.660	0.217	**0.055**	**0.066**	**0.000**	0.631

	Asset	Scale of enterprises	Source of financing	Profit performance
Scale of enterprises	**0.000**	-	0.870	0.900
Source of financing	0.892	0.870	-	0.460
Profit performance	**0.017**	0.900	0.460	-

The category of enterprises of MSMEs, based on either the scale of enterprises or profit performance, mostly, have no association with their characteristics or their source of financing. Only the number of employees has significant association with MSMEs source of financing and profit performance (0.000; 0.004 < 0.05). Some MSMEs' characteristics also have significant association with their source of financing, such as: age (0.016), education (0.024), legal form (0.000), and bussiness sector (0.008). Meanwhile, some MSMEs' characteristics also have significant association with their profit performance, such as: legal form (0.000) and their asset (0.017). Moreover, some MSMEs' characteristics have almost significant association, such as: employees (0.090) with scale of enterprises, education (0.055) and their past expertise (0.066) with profit performance.

The survey shows at the owners of MSMEs almost split in half between male (49%) and female (51%). However, MEs are mostly owned by females (53%). Meanwhile, viewed from source of financing, figure 4.1 (left) shows that MSMEs prefer conventional loan (75%), while others prefer Islamic financing (25%). Moreover, chi-square results show that there is no association between the scale of enterprises and owner's gender (0.376 > 0.05). However, there is a low tendency that MSMEs correspond not only with conventional loan but also with Islamic fianncing (0.870 > 0.05).



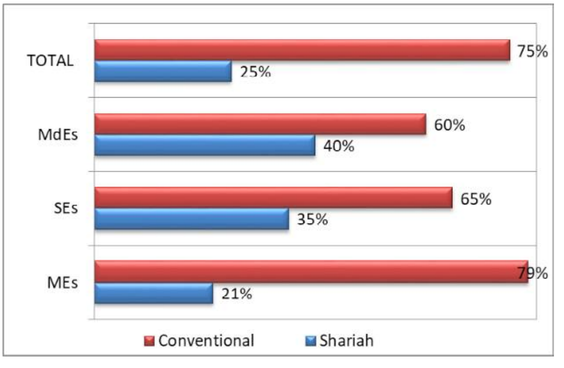
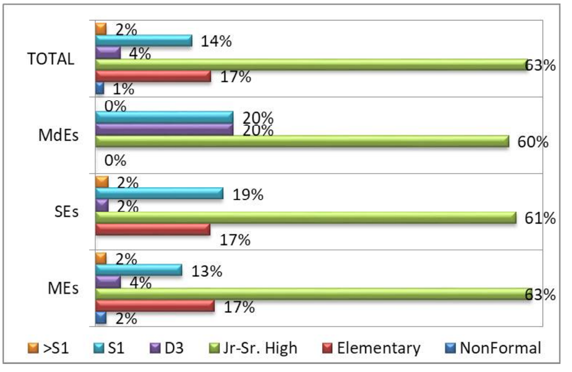


FIGURE 4. 3 GENDER (ABOVE) AND SOURCE OF FINANCING (BELOW)

Moreover, based on owner's the education, figure 4.2 (left) shows that most owners of MSMEs graduated from Junior – Senior High School (63%) and Elementary School (17%), especially owners of MEs where 63% graduated from Junior – Senior High School and 17% graduated from Elementary School. Meanwhile, most owners of MDEs graduated with bachelors degrees and diplomas (20%). Moreover, chi-square results (0.055 < 0.10) show that there is association between net profit performance for the last three years and owner's education. However, there is a strong tendency that those who graduated from elementary and high school correspond with a stagnant profit performance.



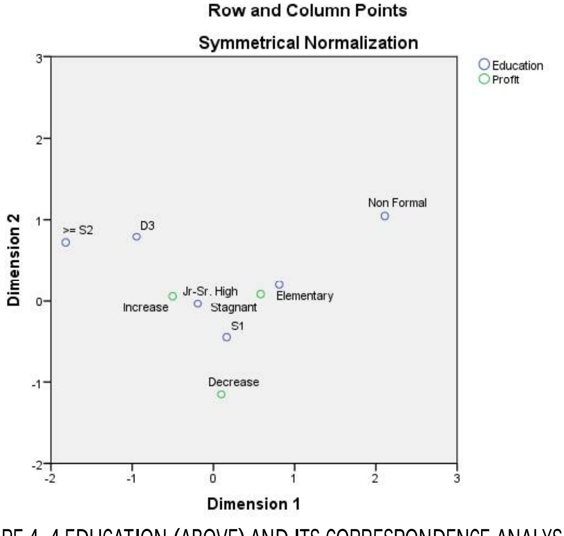


FIGURE 4. 4 EDUCATION (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

Viewed from the sector of business, figure 4.3 (left) shows that most MEs entered the trading and services sector (39%), and only MDEs entered the consumer sector (10%). Moreover, chi-square results (0.631 > 0.05) show that there is no association between the sector of business and MSMEs' net profit performance. However, there is a tendency that MEs and SEs entered the trade and service sectors, while MDEs entered the consumer sector.

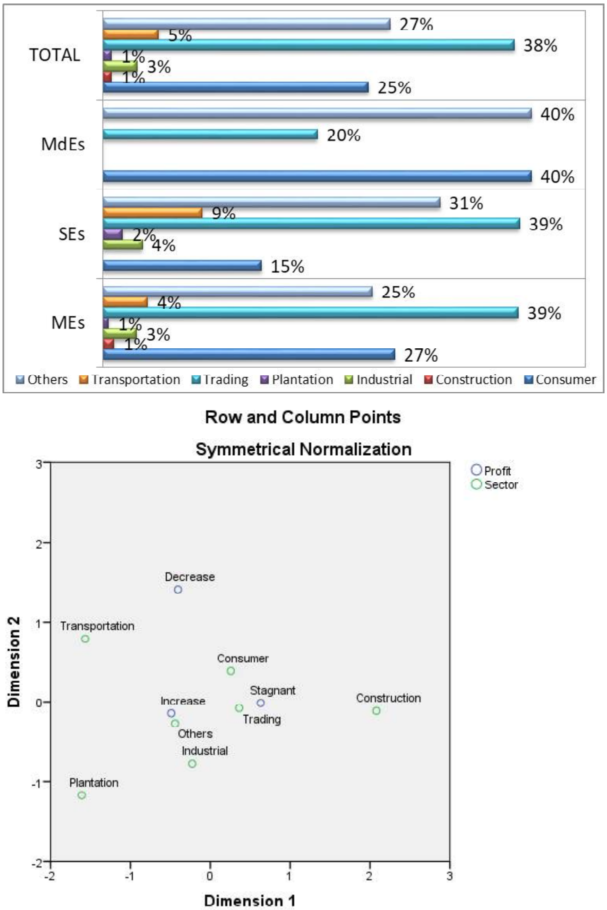
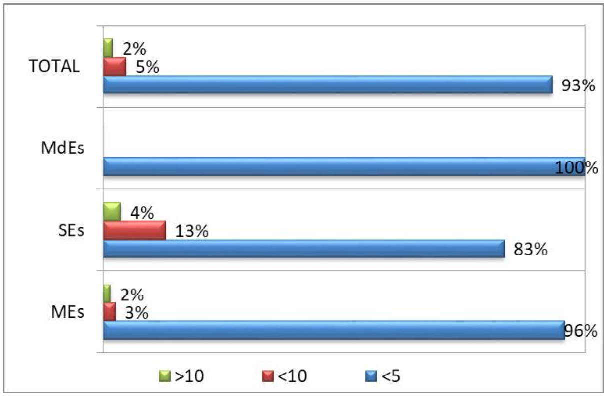


FIGURE 4. 5 SECTOR OF BUSINESS (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

In terms of the number of employees, figure 4.3 (left) shows that most MSMEs (83%) have less than five employees (93%), especially ME (96%). Chi-square results (0.090 > 0.10) show that there is association between the number of employees and the scale of MSMEs' enterprises as well as the source of financing (0.000 < 0.05) and profit performance (0.004 < 0.05). However, there is a strong tendency that MEs have less than 5 employees, while SEs have less than 11 employees and MEDs have more than a dozen employees. Moreover, the more employees is associated with more net profit performance and more employees will influence the type of business financing, as we know that MSMEs prefer conventional loan (75%), while the rest (25%) prefer Islamic financing. So, having no employees corresponds to being stagnant and a decrease in profit.



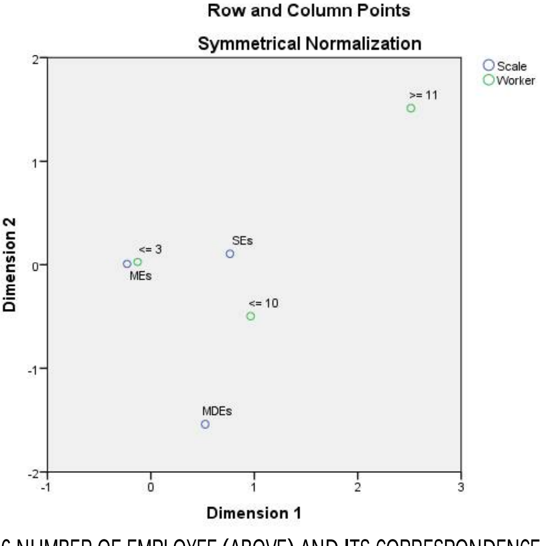


FIGURE 4. 6 NUMBER OF EMPLOYEE (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

The survey shows that the owner's expertise of MSMEs is almost split in half between skilled employees (53%) and unskilled employees (47%). However, MEs are mostly owned by skilled owners and employees (54%), because most MSEs are personally owned and managed by themselves. Meanwhile, MDEs are mostly owned by unskilled owners (60%). Only less than half of the owners are skilled (40%) because most MDEs are not personally owned and not managed by themselves, as they have many skilled workers to manage the enterprises. Moreover, chi-square results (0.066 < 0.10) show that there is association between the number of skilled owners and MSEs' profit performance for the last three years. However, there is a tendency that MEs have employees all of whom are skilled while SEs have mostly skilled employees to increase their profits.

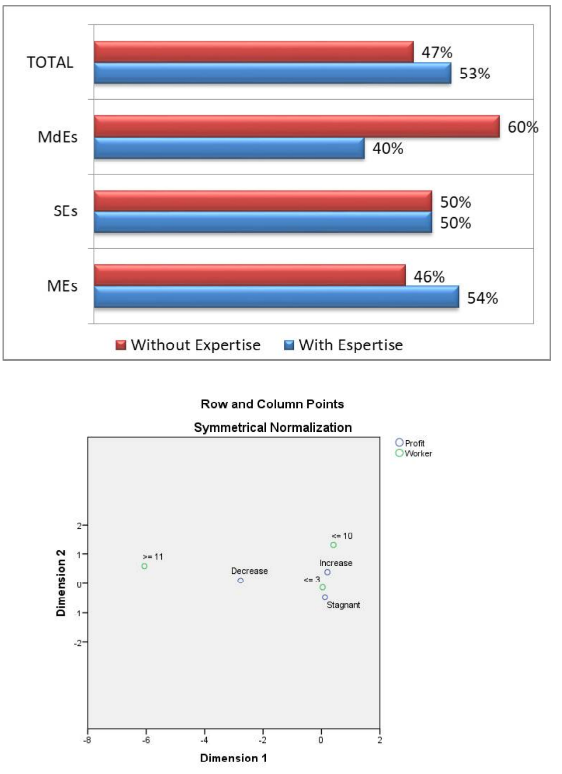
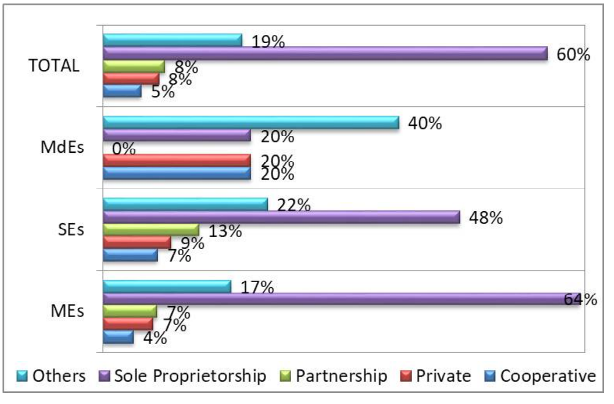


FIGURE 4. 7 OWNER'S EXPERTISE (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

Viewed from the perspective of legal form of business, figure 4.4 (left) shows that most MSMEs open their business as sole proprietorship (60%), especially MEs (64%) and Ses (48%). Only a small part of them choose co-operatives (5%), private limited companies (8%), and partnerships (8%) as their legal form of business. Moreover, chi-square results (0.000 < 0.05) show that there is an association between the legal form of enterprise and MSEs' profit performance for the last three years. However, there is a tendency that sole proprietorships and private enterprises correspond to being stagnant and increase in profit performance.



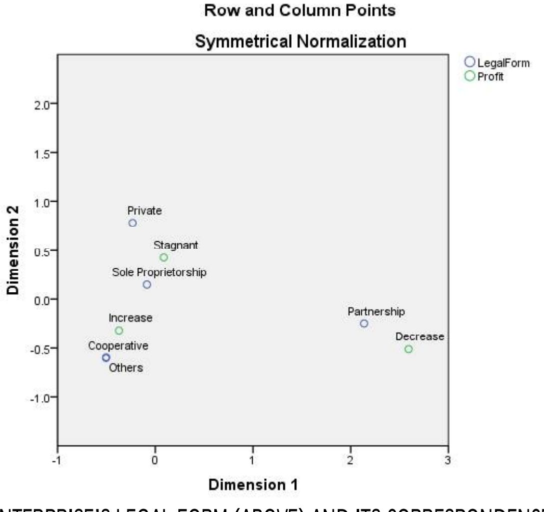


FIGURE 4. 8 ENTERPRISE'S LEGAL FORM (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

Moreover, viewed from net profit performance for the last three years, figure 4.4 (right) shows that most MSMEs (51%) experienced stagnation in profit performance, especially MEs (52%) and MDEs (60%). Only SEs experienced increse in profit performance (48%). Chi-square results (0.900 > 0.05) show that there is no association between net profit performance for the last three years and MSMEs' scale of enterprises. Moreover, other chi-square results (0.460 > 0.05) show that there is a low tendency between net profit performance for the last three years and MSMEs' source of financing.

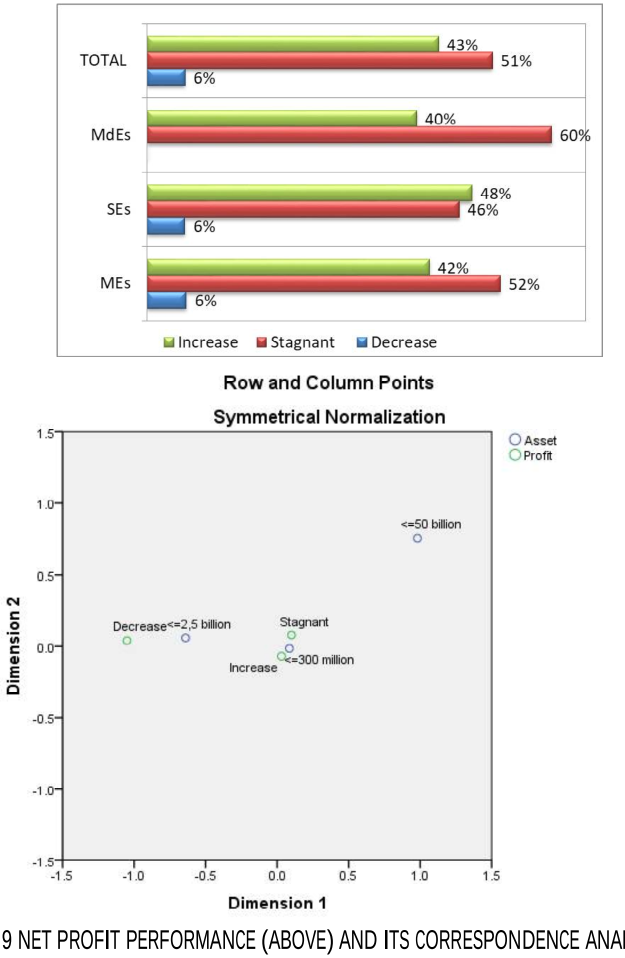


FIGURE 4. 9 NET PROFIT PERFORMANCE (ABOVE) AND ITS CORRESPONDENCE ANALYSIS (BELOW)

As shown in table 4.3, financial institution practised by sharia as well as conventional in Indonesia is able to enhance business performance of MSMEs. The results of paired sample t test show that the mean of the source of financing, such as Bank Loan, Coop Society, Crowd Funding, Loan Relative, Micro Finance, Non-Government, Personal Savings, Registered Moneylenders, Rotating Sheme, Unregistered Moneylenders and others (condition 1 or initial condition) differed significantly from the second condition when the survey was conducted (condition 2 or current condition). The difference could be seen in column six in this table below.

TABLE 4. 5 THE SUMMARY OF THE PAIRED SAMPLES T-TEST OF SOURCE OF FINANCING

Indicators	Mean (Initial)	Mean (Current)	Differences of Mean	T-value	df	Sig. (2-tailed)
Bank Loan	2.283	2.830	-0.547	-6.357	247	[0.000]***
Coop Society	2.552	2.608	-0.056	-1.291	250	[0.198]
Crowd Funding	2.460	2.512	-0.052	-1.183	250	[0.238]
Loan Relative	2.756	2.408	0.348	5.007	250	[0.000]***
Micro Finance	2.460	2.676	-0.216	-5.491	250	[0.000]***
Non-Government	2.587	2.579	0.008	0.19	247	[0.849]
Personal Savings	2.320	2.664	-0.344	-4.027	247	[0.000]***
Reg. Moneylenders	2.728	2.544	0.184	3.705	250	[0.000]***
Rotating Sheme	2.692	2.520	0.172	3.799	250	[0.000]***
Unreg. Moneylenders	2.592	2.388	0.204	4.175	250	[0.000]***
Others	2.628	2.532	0.096	3.001	250	[0.003]***

***significant at the 0.01 level; **significant at the 0.05 level; *significant at the 0.10 level

The result of paired sample t-test show that the household or enterprise's source of financing of the respondents at the first time was different from the last condition significantly when the survey was conducted. Generally, MSMEs are also able to enlarge the net profit performance, even the number of employees from three employees to five employees after utilising the financial institution, especially micro finance.

Financing or credit in a financial institution do not always correspond to the needs of the micro enterprises, because financing or credit would be concentrated between the largest enterprises and wealthiest enterpreneurs. Indeed, based on these results, mostly, they still find barriers to the use of financial accounts. The barriers of formal financial institutions have forced MSMEs to go to moneylenders to borrow money, although they charge high interest. Not surprisingly, most MSMEs in the traditional market are heavily indebted to moneylenders, registered as well as unregistered, and do not have money left as resource for their business capital and as such they consider themselves as micro enterprises and poor people.

Inclusive finance must be supported by empirical analysis of how to measure inclusive finance on aggregate economic indicators. Furthermore, this can increase the participation of the poor in economic growth and ultimately create inclusive growth.

TABLE 4. 6 MEASURING THE ISFI RESULTS

Dimension	Topic	Detailed Indicator	ISFI Results
Usage	Bank Loan	MSMEs with at least one loan outstanding from a regulated financial institution	0.384
		Satisfied with the accessibility of bank loan	
	Coop Society	MSMEs with at least one loan outstanding from a cooperative institution	
		Satisfied with the accessibility of coop society	
	MicroFin	MSMEs with at least one loan outstanding from a micro financial institution	
Accessibility		Satisfied with the accessibility of microfin	0.438
	Savings	MSMEs who saved at a financial institution in the current year	
		Satisfied with the accessibility of saving account	
	Shariah Account	MSMEs with an account at a Islamic financial institution	
		Satisfied with the accessibility of shariah account	

Table 4.4 shows the results of the ISFI measurement of two dimensions of Sharia financial inclusion measurement in 250 MSMEs in Indonesia that were estimated in 2018. The results found that the utilisation of Islamic financial institutions, even cooperatives, is generally low in Indonesia (0,384 for usage dimension and 0,438 for accessibility dimension). This has been proven by the respondents' profile that MSMEs prefers conventional loan (75%), while others (25%) prefer Islamic financing. MSMEs also prefer to use loan from relatives, their personal saving, rotating scheme or other forms of loans.

5. CONCLUSION AND RECOMMENDATION

5.1 Conclusion

MSMEs are very diverse business enterprises (mostly in trade-services, consumer and transportation sectors), which should not be generalized and should be treated accordingly. However, MSEs (in this sample) have some common features, such as:

1. Most MSMEs' Owners hold Junior – Senior High (63%) degrees, elementary (17%) degrees and Undergraduate (14%) degrees.
2. Most MSMEs entered the trade-services sector (38%), which is easy to enter and easy to exit with simple technology, and only MDEs entered the consumer sector (20%).
3. Most MSMEs have less than 5 employees (93%), especially MEs (96%), and they all have skilled employees (53%), especially MEs (54%).
4. Most MSMEs have legal form as sole proprietorship (60%), private and partnership (7%, each).
5. Most MSMEs (51%) experienced stagnation in profit performance, especially MEs (52%). Only 43% of MSMEs experienced an increase in profit performance, and 6% experienced a decrease.
6. Most MSMEs (75%) started their businesses with loan/financing from conventional financial institutions, and only 25% of them received financing from Islamic financial institutions.

Meanwhile, the results of the survey show that the source of financing of the enterprises differed significantly between the first time and the last condition. MSMEs prefer to use loans from relatives, their personal savings, rotating scheme and even moneylenders. They are financed by their own capital because they are unbankable or view debt as an uncommon practice. Furthermore, the utilisation of Islamic financial institutions, even cooperatives, is generally low in Indonesia (0,384 for usage dimension and 0,438 for accessibility dimension).

5.2 Recommendation

On the basis of the results presented above, this research argues for the importance of re-evaluation of the practice of the Islamic financial institutions and the practitioners' understanding of the concept of Islamic finance. This low utilisation of Islamic financial institutions denotes the existence of a gap between the concept of the practice of Islamic finance. Conceptually, Islamic finance is based on cooperative financing design which is ideally easy for MSMEs to join the finance. However, the results of this study shows the contradictory fact. Therefore, this chapter recommends other researchers to find out the rationale as to why the beautiful concept of Islamic finance cannot reach MSMEs' practitioners. This rationale, according to the authors, can be traced back to the Islamic financial institutions' practices and the practitioners' understanding of the concept of Islamic finance.

ENDNOTES

1 CLIENTS. Poor and low-income clients are at the center of the financial system. Their demand for financial services drives the actions of those at all the other levels.
MICRO. The backbone of financial systems remains retail financial service providers that offer services directly to poor and low-income clients. These micro-level service providers run the gamut from informal moneylenders or savings clubs to commercial banks and encompass everything in-between.
MESO. This level includes the basic financial infrastructure and the range of services required to reduce transactions costs, increase outreach, build skills, and foster transparency among financial service providers. It includes a wide range of players and activities, such as auditors, rating agencies, professional networks, trade associations, credit bureaus, transfer and payments systems, information technology, technical service providers, and trainers. These entities can transcend national boundaries and include regional or global organizations.
MACRO. An appropriate legislative and policy framework is necessary to allow sustainable microfinance to flourish. Central banks, ministries of finance, and other national government entities constitute the primary macro-level participants.

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