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Determinant factor of Islamic financial inclusiveness at MSMEs: Evidence from Pekanbaru, Indonesia

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Abstract

Purpose – This study aims to analyze the factors that influence the inclusiveness of Islamic finance in MSMEs and its impact on their business performance.

Methodology – This research uses the quantitative approach through SEM analysis. Data were collected directly from respondents using an online survey questionnaire. Respondents in this study were MSMEs who had interacted with the Islamic Banking with the total sample size of 98 MSMEs owners.

Findings – The results of this study show that the socio-cultural and marketing communication variables have a positive and significant impact on Islamic financial inclusion. Meanwhile, Islamic financial literacy has a positive but insignificant impact on Islamic Financial Inclusion. Although financial literacy does not have a significant impact on Islamic financial inclusion, it has a positive and significant impact on the performance of MSMEs. Another result shows that Islamic financial inclusion has a positive and significant impact on the performance of MSMEs in Pekanbaru

Originality – Research related to the Islamic Financial Inclusion in the MSMEs in Pekanbaru, Indonesia is very limited. This study will contribute to the existing literature in the area of Islamic Financial Inclusion and the development of MSMEs.

Introduction

The growth of Islamic financial institutions, especially Islamic banks in Indonesia is significant. It can be seen from the number of Islamic banking that is continuously increasing. In January 2020, there are 14 Islamic commercial banks in Indonesia with a total offices of 1,922 units. Islamic Bank employs 49,729 people with total assets of 346 trillion. Meanwhile, the total of Sharia Business Unit

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and Islamic Rural Bank (BPRS) are 184 units and they have 540 office networks with a total asset of 164 trillion and a workforce of 10.174 people. The overall total assets of Islamic banking in Indonesia reached 487 trillion (OJK, 2020).

The amount of Islamic banking assets is still not comparable with the total assets of conventional banking which reached 8,535 trillion, so that the total market share of Islamic banking in Indonesia has only reached 6.01 percent. The market share of Islamic banking in Indonesia is still low because of many factors including the low level ofIslamic financial inclusion in Indonesia. In 2010, Islamic financial inclusion in Indonesia only reached 0.122 and in 2015 it increased to 0.127 (Umar, 2017). Then in 2018, the sharia financial inclusion index in Indonesia increased become 0.180 level (Puspitasari et al., 2020). Based on the results of a national survey of sharia financial literacy conducted by OJK in 2016, Aceh Province has the highest sharia financial inclusion in Indonesia at the level of 8.1%. It means only 8 out of 100 Indonesians know the sharia financial services industry (OJK, 2017). In 2017, the highest Islamic financial inclusion index was DKI Jakarta by 0.643 (Ali et al., 2019).

In general, financial inclusion in Indonesia is still low compared to other countries, including the ASEAN region. Based on research conducted by Cámara and Tuesta (2017), Indonesia ranks 84th out of 137 countries in terms of financial inclusion. Financial inclusion becomes very important because it has an impact on the prosperity of a nation. Countries with high levels of financial inclusion tend to be developed countries, because financial inclusion provides opportunities for individuals and businesses to access financial services. Empirical facts show that developed countries like Japan, has a high financial inclusion index and ranks 5th, while Indonesia as a developing country ranks 84th (Cámara & Tuesta, 2017).

The World Bank has encouraged every country to increase financial inclusion for its citizens by forming the Financial Inclusion Support Framework (FISF). The FISF aims to support the creation of financial access in the private sector, especially individuals with low income and micro, small and medium enterprises/MSMEs (World Bank, 2020). Indonesia is one of the targets of the World Bank's FISF program, although Indonesian Government in the past decade has campaigned for the importance of financial inclusion for all people by issuing Minister of Finance Regulation No.22/2010 concerning access to finance for micro and small businesses.

One of the causes of low financial inclusion in Indonesia, especially for low-income people and also for MSME is the banking access difficulty. In terms of accessibility, Indonesia ranks 75th and in terms of usage is 85th out of 137 countries (Cámara & Tuesta, 2017). Although there are many obstacles for the Indonesian community in interacting with banks, there are still great opportunities for banks, especially Islamic banking to penetrate the market and seize market share in conventional banking. Maulana and Abidin (2019) found that one of the factors that prevent Indonesian people from accessing financial services was the lack of willingness of people to access conventional financial services because they contain *riba* (usury), even though they had access to trade with conventional financial institutions. The finding is an opportunity for Islamic banking to penetrate the market.

The market penetration is expected to be the door to access Islamic financial inclusion for people who need Islamic financial services. Islamic banking must conduct an in-depth investigation related to these findings, therefore they can provide financial or financial alternatives for the community. One component of the community that needs access to Islamic finance is Micro, Small, and Medium Enterprises (MSMEs). Islamic Banks have to make MSMEs as one of the important targets for Islamic financial inclusion that must be pursued. MSMEs have a great potential to become an important part in the development of Islamic banking since they are one of the spearheads in moving the economy in the real sector. They certainly need access to financial institutions to develop their businesses. If the Islamic banking seriously accepted the challenges, this will be the locomotive of sharia economy and finance in the future.

Theoretically, Islamic finance has an important role in increasing financial inclusion in Muslim-majority countries such as Indonesia, including in the MSMEs sector (World Bank, 2014). To increase financial inclusion, it can be done by increasing financial literacy. In Indonesia's national financial literacy strategy, the Financial Services Authority (OJK) has made several strategies to achieve it, by emphasizing financial literacy activities in certain groups, one of them is MSMEs (OJK, 2017). MSMEs become the target of financial literacy because of their large contribution to the GDP. In 2018, MSMEs were able to contribute to Indonesia's economic growth of 57.8% with 64.19 million MSMEs. Meanwhile, the growth of MSMEs in Pekanbaru in 2019 was quite large, reaching 13,531 MSMEs and the economic growth rate in 2018 reached 5.39 percent (BPS, 2019).

Unfortunately, the development of MSMEs has not been maximized by Islamic banking in Pekanbaru, so that Islamic financial inclusion in MSMEs sector is still low. Whereas financial inclusion has a big role in developing the economy of a country. With so many MSMEs involved with Islamic banking, it will provide more available capital that can be accessed by the public to meet their needs. For businesses (MSMEs), the availability of capital that can be accessed will facilitate them to develop their businesses and become more efficient (Camara et al., 2014). Empirical facts also show that without financial inclusion it would be very difficult to build MSMEs/entrepreneurs (Abubakar, 2015).

The low of Islamic financial inclusion in the city of Pekanbaru is still understandable because Pekanbaru is a part of Riau Province, where the Islamic financial inclusion index of Riau Province is classified as low at 0.080 level and ranks 20th out of 33 provinces in Indonesia (Ali et al., 2019). Factors contributing to the low index of Islamic financial inclusion in Riau Province are accessibility which only reached 0.05, usage by 0.07, and availability by 0.28 (Puspitasari et al., 2020). With the inclusiveness of Islamic finance at a wider MSME, it is expected to be able to improve the welfare of the community and business people. On another hand, improving the welfare of the public and business people is expected to boost the performance of Islamic banking and provide a positive image in the society. Despite that, Suseno and Fitriyani (2018) found that the development of Islamic finance have an negative impact on financial inclusion in Indonesia

The research related to the inclusiveness of Islamic finance has been done by many researchers, but the research related to Islamic financial inclusiveness for entrepreneurs/MSMEs in Pekanbaru has never been done. This research was conducted to fill this gap and expected to contribute significantly to the development of MSMEs and Islamic Banking in Pekanbaru. This study is important to get the insight from business actors about the role of Islamic financial inclusion on their business performance. With the occurrence inclusiveness of Islamic finance in the MSMEs, they can develop their business well and also give a positive impact on development of Islamic Finance in Indonesia. World Bank emphasizes that inclusiveness of MSMEs in the formal financial institutions is important for them because it can foster the growth of MSMEs (World Bank, 2014). Empirical study shows that financial inclusiveness at MSMEs can improve their business performance (Bongomin et al., 2017; Fan & Zhang, 2017; Kalunda, 2014; Riwayati, 2017). Besides having an impact on business performance, macro-financial inclusiveness also has an impact on economic growth (Babajide et al., 2015; Demirguc-Kunt et al., 2017; Gretta, 2017; Sharma, 2016), financial system stability (Dienillah & Anggraeni, 2016), as well as the impact on poverty alleviation and income equality (Prastowo, 2018), although the relationship is still difficult to understand because of the limited research related to it (Demirguc-Kunt et al., 2017).

However, there are many factors that affect financial inclusiveness. Some researchers highlight that the financial inclusiveness was influenced by financial literacy (Bongomin et al., 2017; Hoque et al., 2018), socio-cultural such as religiosity (Aksoy & Abdulfatai, 2019; Kumar, 2013), individual characteristics such as income, education level and age (Demirguc-Kunt et al., 2017; Shihadeh, 2018), product incompatibility offered (Nugroho & Purwanti, 2018) and marketing communication (Hoque et al., 2018). The aim of this study is to analyze the factors that influence the inclusiveness of Islamic finance in MSMEs through assess of financial literacy, marketing communication and socio-cultural as the independent variables. Beside that, it also analyzes the impact of Islamic financial inclusion on business performance.

Literature Review and Hypothesis Development

Financial Literacy and Socio-Cultural

Financial literacy is defined as a combination of awareness, knowledge, skills, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual financial wellbeing

(Organisation for Economic and Cooperation and Development, 2011). The term can comprise from financial awareness, education or knowledge, including of products, institutions and concepts. Financial skills can be the ability to compute interest payment and financial capabilities such as money management and financial planning (Abubakar, 2015), understand and make use of financial concepts (Servon & Kaestner, 2008). Meanwhile, OJK defines financial literacy as knowledge, skills and beliefs that influence attitudes and behaviors to improve the quality of decision making and financial management in order to prosper (OJK, 2017).

A person who has skills in financial literacy tends to be better at managing, keeping track, planning, and making informed decisions about financial products and staying up to date about financial matters as well as management of money (Beal & Delpachitra, 2003) and even able to manage debt (Lusardi & Tufano, 2015). Van Rooij et al. (2011) added that better understand financial literacy is its relation to financial decision making. Financial literacy is also related to economic decision-making (Lusardi & Mitchell, 2014). In the context of entrepreneurship, the success of an entrepreneur cannot be separated from his ability to manage finances and also access to sources of capital (Abubakar, 2015). Some researchers found that financial literacy has a positive relationship with financial inclusion (Bongomin et al., 2017; Kalunda, 2014; Trianto, 2020; Trianto et al., 2021). This indicates that financial literacy has an important role in the occurrence of inclusiveness of Islamic finance for MSMEs and also for developing their business.

Beside financial literacy, the factor that caused financial inclusion is the socio-cultural of local people. Socio-cultural is defined as something that is believed by the community such as values, attitudes, habits, lifestyle, cultural, religious, educational, and social conditions (Adeleke et al., 2003). Hassan et al. (2018) conducted a study which shows that religiosity influences a Muslim in the Arab Region to become a customer of Islamic Banks. This research was corroborated by Maulana and Abidin (2019), Saptasari and Aji (2020), and Echchabi and Aziz (2012). Although in a study conducted by Aksoy and Abdulfatai (2019) that the decision to buy a luxury item is not influenced by religiosity. In another study conducted by Bongomin et al. (2017) shows that financial inclusion is influenced by institution framing with financial literacy as its moderating variable. This means that financial literacy has an important role in the relationship between institutional framing and financial inclusion. These findings gave the insight for increasing financial inclusiveness for MSMEs, we should pay more attention to the socio-cultural of business actors. Therefore a research hypothesis can be developed as follows:

H_1: Financial literacy has a positive influence on the level of inclusiveness of Islamic finance in MSMEs in Pekanbaru.

H_2: Socio-Cultural has a positive influence on the level of inclusiveness of Islamic finance in MSMEs in Pekanbaru.

Marketing Communication and Financial Inclusion

One way to make people familiar with Islamic financial institutions is by conducting marketing communication. Marketing communication in banking institutions is defined as how Islamic banks communicate with their customers and potential customers to convey their corporate values, updating information about the bank and the product, and sharing their advantages or objectives via diverse communication channels (Hoque et al., 2018). The purpose of marketing communication is to motivate potential customers to conduct financial transactions. With financial transactions, Financial inclusion will be created for them.

There are several ways which can be done in marketing communication including relationship marketing and advertising. The purpose of relationship marketing is to hold on to customers while providing better service from personal interactions (Eisingerich & Bell, 2006; Leverin & Liljander, 2006). In a variety of literature, relationship marketing has a neglected the importance of building long-term relationships with other stakeholder groups, as well as with customers (Payne & Frow, 2017). Relationship marking in banking is defined as activities carried out by banks in order to interact, interact with and retain more profits or high net-worth customers (Walsh et al., 2004). Meanwhile, to increase public awareness and potential customers, massive efforts need to be made, namely through advertising. Advertising is one of the communication media between banks and potential customers. In the financial services industry, advertising cannot be ignored as it provides valuable information relating to products and services (Hoque et al., 2018).

The purpose of marketing communication is to make potential customers willing to become customers of Islamic Banks. If potential customers are willing to become customers, this will create financial inclusion. The empirical studies show that advertisement will increase brand image (Raji et al., 2019; Raza et al., 2020), awareness, and product knowledge (Armstrong & Kotler, 2010) and in turn will direct consumers to increase purchases (Abubakar, 2018). This finding indicates that the marketing communication has an important role in influencing someone to choose financial services. For this reason, it is important for Islamic banking to improve marketing communication to customers and prospective customers so that they are willing to become loyal customers. Based on the description above, the hypothesis can be formulated as follows:

H_3: Appropriate marketing communication will increase the inclusion of Islamic finance in MSMEs in Pekanbaru.

Financial Inclusion and Business Performance

Financial inclusion has moved up the global reform agenda and become a topic of great interest for policymakers, regulators, researchers, market players, and other stakeholders. The World Bank considers that financial inclusion is a major topic because it has implications for poverty alleviation and sharing prosperity (World Bank, 2014). Financial inclusion is defined as the availability of access to various financial institutions, products, and services in accordance with the needs and abilities of the community in order to improve the welfare of the community (OJK, 2017). Meanwhile, in the financial inclusion committee report, financial inclusion is defined as the process of ensuring access to financial services and timely and equitable credit where needed by vulnerable groups such as weaker sections and low-income groups at an affordable cost (Rangarajan, 2008). Whereas the World Bank (2014) defines financial inclusion as a proportion of individuals and firms that use financial services.

Cámara and Tuesta (2017) stated that financial inclusion can be measured through three dimensions namely use, access, and barriers. Nevertheless, in the Republic of Indonesia's Presidential Regulation No. 82 of 2016 concerning SNKI, financial inclusion has three dimensions namely access, use, and quality (Perpres No. 82 of 2016). In the dimensions of use which is related to account ownership in banks, there are savings and borrowing activities. Then, the access dimension can be seen from how many bank branches, agents, and ATMs are available. Meanwhile, the dimensions of barriers include the distance of the bank from the community's residence, level of trust, costs incurred by the community, and documents (Cámara & Tuesta, 2017). Barriers can be caused by insufficient money available to use financial services (Tahiri Jouti, 2018). Whereas on the quality dimension, it can be seen from complaints of services by the Islamic banks (Perpres No.82 of 2016).

Financial inclusion is expected not only to be done by the big companies but can also be achieved by MSMEs. The purpose of financial inclusion for MSMEs is that they have access to financial institutions in the hope that their businesses can develop properly and efficiently in operations. When their businesses can develop well and progress, these businesses can improve the welfare of business operators and can employ the labor, reduce unemployment and alleviate poverty. The development of business activity can be marked by the performance of a business entity which can be seen from several financial and non-financial aspects including growth, customers, internal (Franco-Santos et al., 2007; Kaplan & Norton, 1996), input and output (Lebas, 1995), marketing, operational and people activities (Maisel, 2001) and strategic goals (Franco-Santos et al., 2007).

Based on the empirical studies, business performance is well-developed for those who have access to financial institutions. Bongomin et al. (2017) stated that the existence of access to finance affected the growth of MSEs in Nigeria. Kalunda (2014) conducted a study of tea farmers in Kenya. The results of his study showed that easy access to credit for farmers greatly helped them in managing their tea plantations. The same finding was made by Riwayati (2017), where SMEs in

Indonesia that can improve the quality of financial inclusion, are successful in developing their business. This study was corroborated by Fan and Zhang (2017), and Yaumidin et al. (2017). In addition, MSMEs performance is not only influenced by financial inclusion, but also by person's financial literacy (Amri & Iramani, 2018; Chepngetich, 2016; Fatoki, 2014; Purnomo, 2019). Then, Bongomin et al. (2017) highlighted that the financial literacy is a good moderating variable in the relationship between financial access and growth of SMEs. However, contradictory results are shown by research conducted by Djuwita and Yusuf (2018) which showed that good financial literacy of MSMEs do not affect their business performance.

From the results of the research above, we get empirical facts that the performance of a business can increase when they have access to formal financial institutions. Besides having access to formal financial institutions, business performance is also influenced by the level of financial literacy owned by business actors. This indicates that the two variables are factors that must be a concern for business people in developing their business. Based on the description above, the hypothesis is developed as follows:

H_4: Islamic financial inclusion that occurred at MSMEs was able to make a positive contribution to the MSMEs business performance in Pekanbaru

H_5: MSMEs which have a good understanding of financial literacy will be able to develop their business well

Research Methods

Data

The data used in this study are primary data, taken directly from respondents. The respondents are MSMEs which have became customers in Islamic financial institutions namely Islamic Banks and Islamic Rural Banks (BPRS). In this study, the are eight Islamic banks chosen by the MSMEs namely Bank Syariah Mandiri (BSM), Bank Rakyat Indonesia Syariah (BRIS), Bank Muamalat Indonesia (BMI), Bank Negara Indonesia Syariah (BNIS), Bank Riau Kepri Syarah (BRKS), Bank Tabungan Negara Syariah (BTNS), Bank Permata Syariah and Islamic Rural Bank (BPRS Hasanah). In collecting the data, we use non-probability sampling. Due to the Covid-19 outbreak, data is collected by using the online questionnaire via google form. We send the online questionnaire via whatsapp group to two of MSMEs community namely Bangkit Pengusaha Muslim (BPM) and Generasi Produktif (GenPro). The online questionnaire developed was using the Likert Scale 1 – 5 and the questionnaire was drawdown from the latent variable. This study involves five (5) latent variables and sixteen (16) indicator variables. The first latent variable is financial literacy which has five indicators consisting of awareness, knowledge, skills, attitude, and behavior (OECD INFE, 2011). The second latent variable is marketing communication with two variable indicators, namely relationship marketing and advertising (Houque et al., 2018).

Table 1. Respondent Distribution for Each Bank

No.	Bank	Total	Percentage
1	Bank Syariah Mandiri (BSM)	31	31.63
2	Bank Rakyat Indonesia Syariah (BRIS)	14	14.29
3	Bank Nasional Indonesia Syariah (BNIS)	11	11.23
4	Bank Tabungan Negara Syariah (BTNS)	8	8.16
5	Bank Permata Syariah	3	3.06
6	Bank Muamalat Indonesia	12	12.25
7	Bank Riau Kepri Syariah	10	10.20
8	Bank Pembiayaan Rakyat Syariah (BPRS) Hasanah	9	9.18
	Total	98	100%

Meanwhile, the third latent variable is socio-cultural with three indicator variables, namely religiosity, lifestyle, and habits (Adeleke et al., 2003; Hassan et al., 2018). The fourth latent variable is Islamic Financial Inclusion which has four variable indicators namely accessibility, usage, barrier, and quality (Cámara & Tuesta, 2017; OJK, 2017; PP No. 82). The last latent variable is a business performance which has two indicators namely profit and revenue and business growth (Franco-Santos et al., 2007; Kaplan & Norton, 1996). From the google form that has been distributed to the MSMEs, researchers got 109 feedbacks from respondents. After filtering the responses from these respondents, there were 11 responses from respondents who did not meet the requirements for the purpose of this study. So that the total sample in this study were 98 respondents. The number of samples has met the criteria in the analysis using the SEM-GeSCA approach. Analysis using the SEM-GeSCA can accommodate the small sample under 100 sample (Chumney, 2013). The respondent distribution for each Islamic Banks can be seen in Table 1.

Empirical Model

The empirical model of this study can be seen in the following figure:

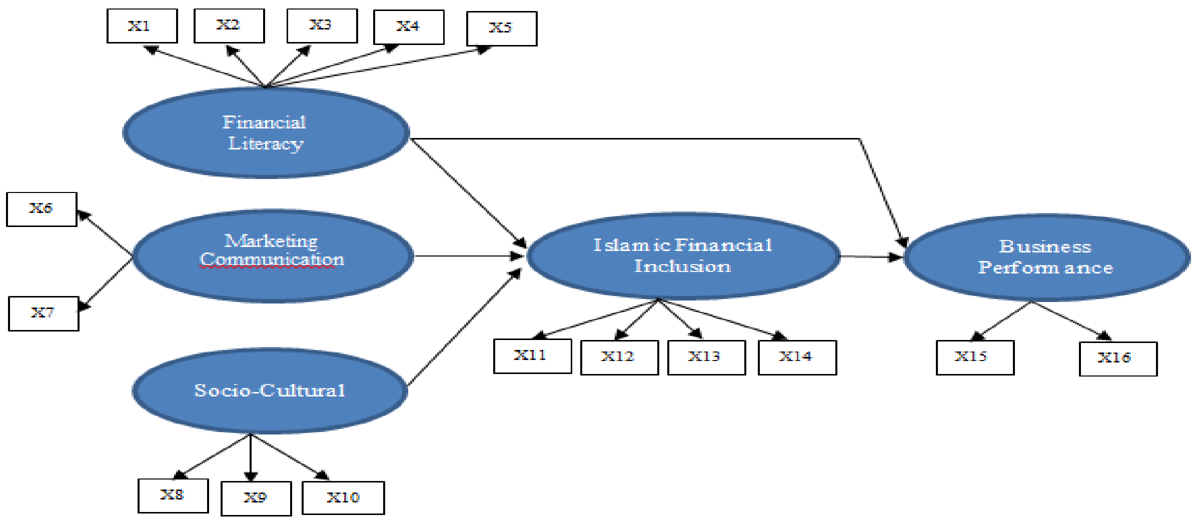

Figure 1. The empirical model

Note :

X1 = Awarness	X7 = Advertising	X13 = Barrier
X2 = Knowledge	X8 = Religiosity	X14 = Quality
X3 = Skill	X9 = Lifestyle	X15 = Profit and Revenue
X4 = Attitude	X10 = Habits	X16 = Business Growth
X5 = Behaviour	X11 = Accessibility	
X6 = Relationship Marketing	X12 = Usage	

Research Methods

This research used a component-based SEM approach with Generalized Structured Component Analysis or SEM-GeSCA. Analysis using SEM-GeSCA is an online process through the website, www.sem-gesca.com. SEM-GeSCA is developed by Hwang and Takane for the quantitative and qualitative data (Hwang and Takane, 2010). SEM-GeSCA is very good in terms of consistency, standard error, and parameter estimate (Afthanorhan et al., 2016). In using SEM-GeSCA analysis, there are three main components, namely fit model evaluation, outer model evaluation, and inner model evaluation (Ngatno, 2017). Model fit evaluation is carried out to see the good fit of the model built from the estimated data. This evaluation consists of FIT, AFIT, GFI, SRMR, and NPAR. While the outer model evaluation is carried out to identify whether the indicators of the latent variables used are valid and reliable. The validity and reliability of the indicator can be seen from the value of the loading factor (convergent validity), AVE (discriminant validity), and the alpha value (composite reliability). Meanwhile, evaluating the inner model is a form of evaluation to estimate the relationship between exogenous latent variables and endogenous latent variables by looking at the coefficient values.

Results and Discussion

Respondent Profile

The results of this study indicate that the MSMEs who were respondents in this study were dominated by businesses engaged in food and beverages for 31 MSMEs or 31.63 percent. It indicates that business in the food and beverage sector is a popular business for entrepreneurs in Pekanbaru. Meanwhile, the trading business occupies the second position as a business sector that attracts entrepreneurs in Pekanbaru with a total of 27 business people or 27.55 percent. The results of this study also show that the education level of MSME entrepreneurs in Pekanbaru is dominated by college graduates. It means that graduates from tertiary institutions in Pekanbaru have a high passion for entrepreneurship, both women and men, although they are still dominated by men, namely 58.16 percent.

Table 2. Respondent Profile

No.	Descriptions	Total	Percentage
1	Gender		
	a. Male	57	58.16
	b. Female	41	41.84
2	Education		
	a. Elementary and Junior High School	2	02.04
	b. Senior High School	11	11.22
	c. University	85	86.73
3	Age		
	a. 20 – 29 years old	29	29.59
	b. 30 – 39 years old	36	36.73
	b. 40 – 59 years old	31	31.63
	c. 60 years old and above	2	02.04
4	Type of Business		
	a. Food and Beverage	31	31.63
	b. Clinic and Drugstore	4	04.08
	c. Property	9	09.18
	d. Services	20	20.41
	e. Trading	27	27.55
	f. Craft	3	03.06
	g. Others	4	04.08
5	Revenue/Years		
	a. Under Rp. 100 Million	49	50.00
	b. Rp.100 Million – Rp.300 Million	18	18.37
	c. Rp.300 Million – Rp. 1 Billion	14	14.29
	d. Above Rp. 1 Billion	17	17.35
6	Number of Employee		
	a. 1 – 4 employee	70	71.43
	b. 5 – 9 employee	15	15.31
	c. 10 – 19 employee	9	09.18
	d. Above 20 employee	4	04.08
7	Type of Inclusion		
	a. Opening bank account	8	08.16
	b. Opening and saving	43	43.88
	c. Opening, saving and financing	35	35.71
	d. Opening, saving, financing and payroll	12	12.24

Source: Author Calculation, 2020

Table 2 shows that the inclusion of Islamic finance that occurs in MSMEs in Pekanbaru is almost equal between those who only open accounts and save with those who open accounts, save as well as make financing, namely 43 to 35. This indicates that the MSMEs entrepreneurs in Pekanbaru have a desire to develop properly through interactions with Islamic banking. Although most of the sales turnover is still below one hundred million per year, not a few have a turnover of more than one billion.

Statistics Descriptive

Mean, standard deviation, maximum and minimum, and variance

The results of descriptive statistics show that the minimum value of each latent variable shown by the variable indicators has the highest value of 5.185294, while the lowest value is 1.0000. Meanwhile, the highest mean is 3.65836077 and the lowest is 2.96002633. Table 3 also shows the standard deviation value, where the lowest value is 0.635171142 and the highest is 0.923827750. It means that the number of MSMEs sample in this study had a low level of diversity. When viewed from the respondent's profile, there are only seven types of MSMEs, namely food and beverage, clinic and drug store, property, service, trading, craft, and others.

Table 3. Statistics Descriptive

Variable	Mean	S.D	Minimum	Maximum	Variance
X1	3.45929546	.828774717	1.000000	5.185294	.687
X2	3.15422445	.663493528	1.443909	4.504070	.440
X3	3.19507407	.803692145	1.000000	4.644344	.646
X4	3.57673379	.759642961	1.000000	4.988062	.577
X5	3.52565056	.679917197	1.450775	4.973091	.462
X6	2.96002633	.852317743	1.000000	4.962558	.726
X7	3.15355478	.838636619	1.000000	5.258744	.703
X8	3.53151898	.635171142	1.949756	4.454718	.403
X9	3.53592029	.850059671	1.000000	4.462871	.723
X10	3.31751455	.784625904	1.437033	4.315528	.616
X11	3.65836077	.752395718	1.000000	4.997204	.566
X12	3.41347982	.829734148	1.000000	4.891206	.688
X13	3.41347982	.830653547	1.000000	4.846593	.690
X14	3.41347982	.811089820	1.000000	4.951437	.658
X15	3.53592030	.831870890	1.000000	5.153048	.692
X16	3.41347982	.923827750	1.000000	5.030607	.853

Source: Authors Calculation, 2020

Correlation between latent variables

The correlation between variables in quantitative research is very important because it relates to research results. The relationship between these variables can be negative or positive. The relationship between variables is positive, meaning that the relationship is unidirectional, while a negative relationship means that the relationship between the two is opposite. Table 4 shows that the correlation between latent variables is positive and significant. This means that the variables involved in this study deserve to be tested by looking for the influence between these latent variables.

Model FIT evaluation

The first evaluation in SEM-GeSCA analysis is to evaluate the model developed in this study by looking at the values of FIT, AFIT, GFI, SRMR, and NPAR. In Table 5, it can be seen that the GFI value of the model built in the study is very good because the GFI value is above 0.90 with the SRMR value close to zero. Meanwhile, the FIT value of 0.541 means that the model built in this study is able to explain the variance of all variables by 54.20 percent.

Table 4. Correlation of Latent Variables

	Islamic Financial Literacy	Marketing Communication	Socio-Cultural	Islamic Financial Inclusion	Business Performance
Islamic Financial Literacy	1	0.515 (0.105)*	0.536 (0.078)*	0.489 (0.089)*	0.543 (0.076)*
Marketing Communication	0.515 (0.105)*	1	0.257 (0.112)*	0.431 (0.113)*	0.616 (0.066)*
Socio-Cultural	0.536 (0.078)*	0.257 (0.112)*	1	0.615 (0.063)*	0.477 (0.081)*
Islamic Financial Inclusion	0.489 (0.089)*	0.431 (0.113)*	0.615 (0.063)*	1	0.601 (0.086)*
Business Performance	0.543 (0.076)*	0.616 (0.066)*	0.477 (0.081)*	0.601 (0.086)*	1

*Correlation: * significant at .05 level*
Source: Authors Calculation, 2020.

Table 5. Model Fit Evaluation

Model Fit	
FIT	0.541
AFIT	0.530
GFI	0.983
SRMR	0.214
NPAR	48

Source : Author Calculation, 2020

Outer model evaluation

Outer model evaluation is carried out to see whether the indicators that form the latent variable construct are reliable (valid) and reliable. The validity of the indicator variable can be seen from the loading factor value generated by each variable. A valid loading factor has a value above 0.50. In Table 6 it can be seen that all variable indicators have a loading factor value above 0.5 except for the loading factor value of the fourth indicator variable (X4) of the latent variable financial literacy. It means that the construct variables that are developed successfully reflect the latent variables.

This outer model evaluation also shows the AVE (Average Variance Extracted) value, which is a value that explains the average number of variants of the relationship between the latent variable and the variable indicator. This AVE value shows discriminant validity and the recommended value is at least 0.50. The results of this study indicate that the relationship between the latent variable and the indicator variable has an AVE value above 0.50. This means the data used in this study have good discriminant validity. This is also confirmed by the alpha value generated by each variable.

Inner model evaluation

Inner model evaluation is an evaluation of the resulting structural equation. The number of structural equations that are generated depends on the level of complexity of the model being built. The results of this structural equation are the final results of a model with analysis using the SEM approach. The structural equation shows the relationship between exogenous latent variables and endogenous latent variables.

Table 7 shows that the relationship between the financial literacy variable and the Islamic financial inclusion variable ispositive with a coefficient value of 0.088 but the relationship is not significant, meaning that the hypothesis proposed *(H1)* in this study is rejected. Although financial literacy does not have a significant effect on the inclusion of Islamic finance in MSMEs in Pekanbaru, it has a positive and significant impact on the development of MSMEs with a coefficient value of 0.327 and therefore *H5* is accepted. The factors that influence the inclusiveness of Islamic finance at MSMEs in Pekanbaru are marketing communication and socio-cultural with coefficients of 0.256 and 0.502, therefore *H2* and *H3* are accepted. Meanwhile, the occurrence of Islamic financial inclusion in MSMEs in Pekanbaru has a positive impact on their performance with a coefficient of 0.442 and therefore *H4* is accepted.

Table 6. Outer Model Evaluation

Variable	Loading			AVE	Alpha
	Estimate	SE	CR		
Financial Literacy					
X1	0.801	0.046	17.45*		
X2	0.891	0.023	39.55*		
X3	0.841	0.038	22.29*	0.521	0.738
X4	0.284	0.204	1.39		
X5	0.615	0.134	4.59*		
Marketing Communication					
X6	0.916	0.027	34.51*	0.849	0.822
X7	0.926	0.022	42.8*		
Socio-Cultural					
X8	0.763	0.058	13.12*	0.550	0.573
X9	0.845	0.050	16.73*		
X10	0.595	0.124	4.79*		
Islamic Financial Inclusion					
X11	0.567	0.137	4.13*	0.676	0.836
X12	0.921	0.020	45.13*		
X13	0.882	0.035	25.04*		
X14	0.871	0.048	18.0*		
Business Performance					
X15	0.951	0.016	60.42*	0.860	0.838
X16	0.904	0.028	31.78*		

CR = Significant at 0.5 level*
Source: Author Calculation, 2020

Table 7. Inner Model Evaluation

Relationships	Path Coefficients		
	Estimate	SE	CR
Financial Literacy → Islamic Financial Inclusion	0.088	0.117	0.75
Financial Literacy → Business Performance	0.327	0.088	3.71*
Marketing Communication →Islamic Financial Inlusion	0.256	0.118	2.16*
Socio-Cultural →Islamic Financial Inclusion	0.502	0.078	6.44*
Islamic Financial Inclusion → Business Performance	0.442	0.101	4.35*

CR = Significant at 0.5 level*
Source: Authors Calculation, 2020

Discussion

This study found a very important result, that financial literacy has a positive but insignificant impact on the inclusiveness of Islamic finance in MSMEs. Therefore this result contradicts the research conducted by Bongomin et al. (2017) and Hoque et al. (2018). It is believed that a person's involvement in Islamic banking is caused by several factors, including understanding, perceptions of banking and products from Islamic Banks, and also the characteristics of the customer (Abubakar, 2018). Individual customers and MSMEs customers certainly have significant differences. The inclusiveness of Islamic finance for individuals could be because they work at a company where the company makes salary payments using the payroll system of Islamic banking, so Islamic financial inclusiveness will automatically occur for all employees. Meanwhile, the inclusiveness of Islamic finance in MSMEs depends on the perception of MSME owners towards Islamic Banks (Abubakar, 2018), individual characteristics (Demiguc-Kunt & Klapper, 2012; Shihadeh, 2018), and also depends on the products offered (Nugroho & Purwanti, 2018). Although insignificant, Islamic Financial Literacy variable has a positive effect on Islamic financial inclusion. Therefore, it is necessary to increase understanding of Islamic financial literacy for business actors so that they can have a greater impact in increasing the inclusiveness of Islamic finance.

Marketing communication is one of the important variables for the inclusiveness of Islamic finance for MSMEs in Pekanbaru. Statistical tests show that marketing communication has a positive and significant impact on Islamic financial Inclusion. This result shows that the conceptual framework that has been developed by Hoque et al. (2018) is compatible with this research. This result implies that Islamic banking should increase the intensity of its marketing communication with the right prospective customers. The right customer is a potential customer who has a great opportunity to become a customer and the bank must search deep information from them so that they are interested in becoming customers and it needs to be remembered that potential customers are as important as existing customers (Cheese et al., 1988; Sherril et al., 1990).

In this case, the potential customers for the Islamic Bank are MSMEs who have a good level of religious understanding, an Islamic lifestyle, and good habits. This is evidenced by the statistical results of this study that socio-cultural has a positive and significant impact on financial inclusiveness. Socio-cultural is something that is believed by society (Adeleke et al., 2003) and in this study, the components of socio-cultural are religiosity, Islamic lifestyle, and habits. This implies that the understandings of religion, Islamic lifestyle, and habits play a significant role. It is very important to accelerate Islamic financial inclusiveness in MSMEs in Pekanbaru. This finding of this study is in line with the findings of (Aksoy & Abdulfatai, 2019; Kumar, 2013)

Another finding in this study indicates that financial inclusion among MSMEs in Pekanbaru also has an impact on business performance. This means that MSMEs which already had access to Islamic Banks are able to encourage their business to run well because without financial inclusiveness it will be very difficult to develop MSMEs (Abubakar, 2015). The result of this study is consistent with the research conducted by Bongomin et al. (2017), Fan and Zhang (2017), Kalunda (2014), and Riwayati (2017). On the other hand, the success of MSMEs in developing their businesses cannot be separated from the financial literacy they have. This is evidenced by the results of statistical tests of this study where financial literacy owned by MSMEs has an influence on company performance. This result is in line with the research conducted by Fatoki, (2014), Chepngetich (2016), and Amri and Iramani (2018). The result of this study has implications for MSMEs, if they want their businesses develop well, they must increase the understanding of financial literacy. By understanding financial literacy well, it will provide direction in making important financial and business decisions.

Conclusion

Financial inclusion is a serious concern for the Government of Indonesia and also for the World Bank because financial inclusion will accelerate the creation of financial access for low-income communities and MSMEs. The results of this study indicate that the inclusiveness of Islamic finance in MSMEs in Pekanbaru is influenced by the marketing communication that has been carried out by Islamic Banks and is also influenced by the socio-cultural owners of these MSMEs. This indicates that these two variables have an important role in increasing the inclusiveness of Islamic finance in MSMEs in Pekanbaru. Although financial literacy does not have a significant effect on the Islamic financial inclusiveness of business actors, financial literacy has a positive and significant impact on business development. Therefore, financial literacy remains an important part of the development of MSMEs in Pekanbaru, Indonesia. For this reason, the understanding of Islamic financial literacy for business actors, especially MSMEs, must be improved so that it can have a positive and significant impact in increasing the inclusiveness of Islamic finance and their business performance. Meanwhile, the inclusiveness of Islamic finance has an positive and significant impact on the business development of business actors.

To increase the Islamic financial inclusion in the MSMEs sector, the researchers recommend that Islamic banking in Pekanbaru in particular and Indonesia in general carry out more intensive marketing communication to MSMEs owners who have a good socio-cultural level, especially in terms of religious understanding, lifestyle and habits. However, it should be remembered that a good understanding of religion is not necessarily the right marketing target for Islamic banks. It should be seen also the characteristics of the owner of the MSMEs and also the perception of the owner of the MSMEs towards Islamic banking. Therefore, MSMEs which have a good level of Islamic understanding must be really selected and they support the development of Islamic banking in Indonesia. The second recommendation is increasing the literacy of Islamic finance among entrepreneurs. Although financial literacy does not have a significant impact on financial inclusion, it has a positive impact on business development. Therefore it is important for business actors to improve their financial literacy. For this reason, researchers recommend that business owners must be equipped with Islamic financial literacy so it will provide skills for business owners in making important financial decisions. To be able to carry out Islamic financial literacy for business actors, it can be done in collaboration with several parties such as the entrepreneur community, academics, and the government.

However, there are some limitations to this study. Other variables might influence Islamic financial inclusion. Therefore it is necessary to conduct an investigation and test these variables which are predicted to have an influence on the creation of Islamic financial inclusiveness in Indonesia. Thus, it is hoped that the results will be more comprehensive and can provide an alternative policy that can be taken. In addition, the limitation of this study is the number of samples involved therefore, the sample size for further research can be increased. Another limitation of this study is the data collection. To collect the data, we use a non-probability sample,

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Appendix: Question Statement

Variables	Sub-variables	Question statements
Financial Literacy	Awareness (X1)	1. I always provide funds at least once a semester for Sharia finance training 2. I always upgrade my Islamic finance skills every month
	Knowledge (X2)	1. I know Islamic financial service products well 2. I know very well how to invest with Islamic financial instruments 3. I will always follow the Islamic finance training if there is information about it
	Skill (X3)	1. I have the ability to manage finances with Sharia concepts 2. I understand well the management of investment portfolios in Islamic financial instruments
	Attitude (X4)	1. I tend to save my money in the bank or invest rather than keep it at home 2. Money is very important to me because without money it is difficult to do what we want 3. I am the type of person who really loves money, so I will not buy something if it is not important
	Behaviour (X5)	1. I always set aside a minimum of 20 percent of the money I earn every month for savings 2. To anticipate the uncertainty, I always set aside profit for it 3. I always increase the capital portion of the profits I receive every year
Marketing Communication	Relationship marketing (X6)	1. They always provide interesting information to me through their various media channels 2. They are aware of various social issues and this is interesting for me
	Advertising (X7)	1. I know Islamic Banks because of their advertisements 2. I join to become the customer of Islamic Banks since the advertisements delivered are clear and very attractive
Socio-Cultural	Religiosity (X8)	1. I immediately open an Islamic bank account since I found out that bank interest is forbidden 2. I adhere to Islamic law, if Allah forbids it then I will not do it, including in terms of financial transactions
	Lifestyle (X9)	1. Becoming a customer of an Islamic Bank has become my lifestyle as a Muslim today 2. I feel strange if I don't become a customer of an Islamic bank
	Habits (X10)	1. I used to save money since childhood 2. I will try to set aside a little of the money I earn for savings under any circumstances
Financial Inclusion	Accessibility (X11)	1. I easily find the Islamic bank office 2. I easily find the ATM
	Usage (X12)	1. I love doing transactions at Islamic banks because it can fulfill my needs 2. I love doing transactions at Islamic banks because it's easier, faster, and more efficient
	Barriers (X13)	1. Documentation requirements do not make it difficult for me to transact with Islamic Banks 2. Islamic Bank administration fees are relatively affordable and competitive
	Quality (X14)	1. The services provided by Islamic banks are in line with my expectations 2. The services provided by Islamic banks are very satisfying
Business Performance	Profit and revenue (X15)	1. Islamic Banks make it easier for me to do business with my clients 2. Islamic banks always support my business by providing convenience for customers who deal with me, so it helps to increase my business profits and revenue
	Business Growth (X16)	1. After becoming a customer of Islamic Banks, I was able to develop my business to be bigger