

# CHAPTER I

## INTRODUCTION

### **A. Background**

Total population number in Indonesia showed a growth rate relatively high as an average of 1.78% per year compared to the world population growth was 1.61% from year 1971 to 2010. In 2010 Indonesia has reached 237.64 million of total population, the community needs in term of financial product and services are also expected increase from year to year. Data from BPS (2012) show the number of people in productive age which from 15 to 54 years reached 59.98% or 142.54 million. This population growth is a potential side for financial services institutions for offering their products and services.

The potential of Indonesian societies that will take financial product and services advantages in the future are expected to be increased, considering from year 2000 due to 2012 GDP per capita of Indonesia is increased from Rp. 6.72 million to Rp. 33.24 million and Indonesia financial services sector also contribute as the important role who were doing financial intermediation Rp. 7.534.81 trillions per December year 2012. However, the role is not optimal (OJK 2013).

The Pew Forum on Religion & Public Life (2010) set 10 Countries with the largest Muslim population, Which placed Indonesia at the first rank with 12,7% from the world total population this statement is strengthen by Data from Badan Pusat Statistik year 2015 calculated 207,2 million of Indonesian

people or (87,18%) is Muslim. From its population, 150 million people have an opportunity to access the financial product and services but in fact, only 2% who are able to access this is known by watching on Islamic banking market share.

With the largest Muslim population Country Indonesia has the advantages as potential place for the development of Cultural, Governmental and Financial instrument which based on the Islamic principles. Indonesian muslim people awareness of financial institution need which based on the Islamic principles appear in the end of 90' Century, The emergences of Shari'ah banks is the sign of Islamic financial system starting point in Indonesia and also giving the refreshment air for Muslim people and as the main foundation of Islamic financial establishment.

In the last two decade Islamic financial Institution caught by stagnation this statement followed with the data from Otoritas Jasa Keuangan per September 2015 which shows the shari'ah financial market share in Indonesia only 5% from the total of financial asset. Year 2013 Global Islamic Economic Index placed Indonesia in the tenth grade when measuring the development of Islamic Economic whole the world.

As consequences of the changing structure of an economy, financial knowledge has become not just a convenience but an essential survival tool. A lack of financial knowledge can contribute to the making of the poor financial choices that can be harmful to both individual and communities (Kefela, 2010).

One of factors affecting the low of Shari'ah financial market share in Indonesia is the low of Shari'ah financial literacy that remain in the society (Rahmawati, 2016). The use of financial product and services has done to fulfill individual need for consuming so individual preferences in using the shari'ah financial services determined by knowledge and understanding, ability or skills and individual confidence to fulfill the financial need that is called financial literacy.

Financial literacy defined as the ability to understand finance according to (Mason and Wilson, 2000) in Sardiana, (2016) financial literacy meant as the ability of a person to get, to understand and to evaluate relevant information on decision-making for understanding its consequences. Financial literacy makes a person able to make a decisions based on relevant information therefore, the understanding of information becomes important in every decision making process for each individuals (Sardiana, 2016). According to Chen and Volpe, (1998) the ability to manage personal finance has become increasingly important in today's world people must plan for long term investment for their retirement and children's education, they must also decide the short term savings and borrowing for a vacation, a down payment for a house, a car loan and other big ticket item.

It is important to know financial literacy if people want to avoid financial scum and now days there are financial advisers and planners who look after their client's interest also consumers bombarded with varieties of financial product than as a Muslims we have to understand Islamic finance because it is

our duty (Ahmad, 2010 in Chong, 2014). This is especially important to middle class, where the majority of consumers of financial product belong.

According to OJK National Survey of Financial Literacy year 2013, show financial knowledge (financial literacy) is 21, 84% or 1:5 from the total population of Indonesia with the well literate category. Where the financial inclusion is 59, 74% which dominated by financial product and services 57, 28%, followed by Insurance 11, 81%, funding 6, 33%, pawnshop 5, 04%, retirement fund 1, 53% and capital market 0, 11%.

**Table 1.1**  
Literacy Index and Utility Index of Financial Sector

Classified	Finance	Insurance	Funding	Pension Fund	Capital Market	Pawnshop
<i>Well Literate</i>	21.80%	17.84%	9.80%	7.13%	3.79%	14.58%
<i>Sufficient Literate</i>	75.44%	41.69%	17.89%	11.74%	2.40%	38.89%
<i>Less Literate</i>	2.04%	0.68%	0.21%	0.11%	0.03%	0.83%
<i>Not Literate</i>	0.73%	39.80%	72.10%	81.03%	93.79%	45.44%
<i>Utility</i>	57.28%	11.81%	6.33%	1.53%	0.11%	5.04%

Source: National Financial Literacy Survey, 2013

Based on survey of OJK 2013, in term of society financial literacy improvisation Indonesian society financial literacy defied into four, those are

1. Well literate (21, 84 %), those who have knowledge and believe related financial institution products and services include advantages and risk, right and obligation related to financial products and services, and capable to use financial product and services.

2. Sufficient literate (75, 69 %), those who have knowledge and believe related financial institution products and services include advantages and risks, right and obligation related to financial products and services.
3. Less literate (2, 06 %), those who only have a knowledge related financial institution products and services.

Not literate (0, 41%), those who does not have knowledge and believe related financial institution products and services include advantages and risk, right and obligation related to financial products and services.

Financial literacy has the long term purpose for the whole of the society:

1. Increase the people literacy which less literate or not literate to the well literate.
2. Increase the amount of financial product and services users.

People have to understand advantages and risks than believe that financial product and services that they choose will increase their welfare than they can determine the suitable financial product and services as they need.

For the society, financial literacy will give a benefit such as:

1. Able to determine and harness the suitable financial product and services, and have the capability for maintaining the good financial planning.
2. Avoid people from the uncertainty investment in the financial instrument.
3. Understand the advantages and risk of financial product and services.

Financial literacy also contributed many benefit for the financial sector, financial institution and the society need each other therefore, if the society financial literacy is increase more people would like to use the financial

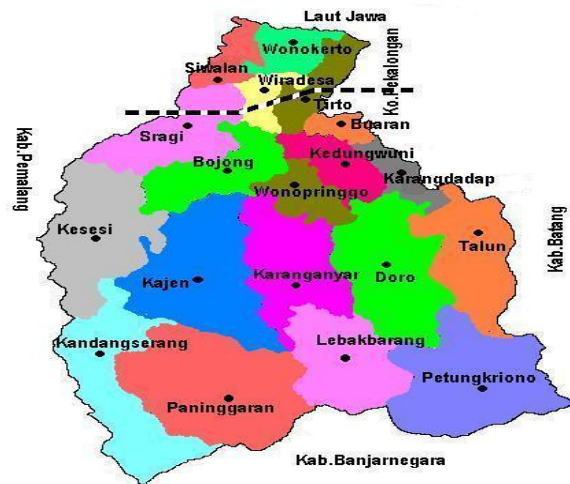
products and services. Pekalongan as one of the part of central Java labeled as batik city and recognized at the national level. If the focus of people are concern to the industrial product such as batik and sarong here writer try to show how is the condition of other sector and how the poor people at Pekalongan which is most of them work as a farmer and life in the rural area.

**Table 1.2**  
Percentage of Poor People 15 Years Old and above and Working Sector  
2005-2010

Year	Not Working	Work at the Agriculture Sector	Work at the non-Agriculture Sector	Total
2005	10,66	55,90	33,44	100,00
2006	16,06	49,80	34,14	100,00
2007	4,52	43,43	52,05	100,00
2008	0,94	38,16	60,90	100,00
2009	3,59	57,13	39,28	100,00
2010	0,96	46,32	52,72	100,00

Source: BPS 2016

From above data we know most of poor people are work at the agriculture sector which mean being a farmer, and most of people who doing an agriculture living in the rural area with the available land. The general way to attempted is agricultural which influence by the nature around the area such as climate, nature resources, which is nonagricultural work is a sideline job.



**Figure 1.1:**  
Pekalongan Regency Map

According to the background above related to the lack of financial literacy at the Indonesian society writer would like to to analyze the condition whether people are unfamiliar with the shari'ah financial literacy or in contrary, especially in Pekalongan and writer concern on those who living at the rural which came up with the title: "ANALYSIS OF FACTORS AFFECTING SHARI'AH FINANCIAL LITERACY IN RURAL AREA, STUDY CASE OF PEKALONGAN".

## **B. Problem Limitation**

Study limitation aims to restrict the analysis problem may occur. This study restricted to the following limitation:

1. The dependent variable in this research is shari'ah financial literacy
2. The independent variables is income, education, work field and financial institution relationship
3. This research used primary data and the data collection used in this research is qualitative such as questionnaire and interview.

4. Respondent are Pekalongan people who are living in rural area.

### **C. Research Question**

Based on the explanations that have been described above therefore, the problems in this research are:

1. Does income affect on rural people shari'ah financial literacy in Pekalongan?
2. Does education affect on rural people shari'ah financial literacy in Pekalongan?
3. Does work field affect on rural people shari'ah financial literacy in Pekalongan?
4. Does financial institution relationship affect on rural people sharaia financial literacy in Pekalongan?

### **D. Research Objectives**

The specific purpose of this research is to study of shari'ah financial literacy at the specific. Based on research question, thus the objective of this paper is:

1. To analyze the relation between shari'ah financial literacy and the income of people who lived in the rural area of Pekalongan.
2. To analyze the relation between shari'ah financial literacy and the work field of rural people in Pekalongan.
3. To analyze the relation between shari'ah financial literacy and the financial institution relationship in the rural area of Pekalongan.



4. To analyze the relation between shari'ah financial literacy and the education in the rural area of Pekalongan.

#### **E. Research Benefits**

This study contributes useful information for parties which are interested in shari'ah literacy there are some benefits for government, financial institution and academicians such as:

1. To the government, give benefit for government in term of conducting the social project in financial literacy education to support financial institution.
2. To financial institution, give benefit for financial institution in term of expanding their financial product.
3. To scholar and academicians, give benefit to provide some additional information for further research.

#### **F. Research Plan**

The organization of the research is conducted, as follows:

1. Chapter I, Introduction. This chapter will explain the purposes and objectives of this research, the background of this research and aims to explore the objects of research.
2. Chapter II, Literature Review. This chapter included the theory related with this study, also include the previous research from the expert who was conduct similar research before with the difference object, included the hypothesis to conjecture the analysis of the study.

3. Chapter III, Data Research and Methodology. Chapter three explain briefly the data which conduct in this research, and explain Analysis quantitative descriptive and ordinal regression methodology step to analysis the study.
4. Chapter IV, Overview. Chapter four will explain the general description and overview the Shari'ah financial literacy in rural area of Pekalongan.
5. Chapter V, Research Finding. This chapter will explain in detail the result of analysis which conducts by an Analysis of quantitative descriptive and ordinal regression.
6. Chapter VI, Conclusion. In this chapter will conclude the result of test in chapter four, the recommendation for the next research and the policy related to the Indonesia financial institution.