The Effect of Islamic Financial Inclusion and Human Development Index on Poverty Rate in Indonesia

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Abstract

Poverty is a problem that always exists in various countries around the world including Indonesia, where Indonesia is included in the 100 poorest countries in the world. From Nurkse's theory, the solution that can be done to reduce poverty is to increase financial inclusion and human development index. Islamic financial inclusion in Indonesia is still very low and the human development index in Indonesia continues to increase but the poverty rate in Indonesia is still high. Therefore, the main problem identification in this research is the effect of Islamic financial inclusion and human development index on poverty in Indonesia. This research uses quantitative methods and uses secondary data obtained from the Central Bureau of Statistics website, and the Financial Services Authority. This research uses panel data regression analysis which takes data from 33 provinces in Indonesia from 2018 to 2022. The results of this study indicate that Islamic financial inclusion and the human development index have a negative and significant effect on the poverty rate in Indonesia. For this reason, it is necessary for government regulations to continue to increase Islamic financial inclusion and the human development index so that poverty in Indonesia can continue to decrease.

Keywords: Islamic Financial Inclusion, Human Development Index, Poverty

1. INTRODUCTION

The issue of poverty is still an ever-present problem both in developed and developing countries. The impact of Covid-19 has led to an increase in extreme poverty from 70 million to more than 700 million. By the end of 2022 there will still be 685 million people living in extreme poverty (World bank, 2023). Indonesia as a developing country is also not free from the problem of poverty. Based on data from Global Finance (2023), Indonesia is ranked the 92nd poorest country. This is certainly an important thing to reduce poverty in Indonesia. Based on data from the Central Statistics Agency (2022), the poverty rate in Indonesia is around 9.57% or around 26 million people in Indonesia are in poverty. The high poverty rate certainly has an impact on all provinces in Indonesia.

In the theory of the poverty cycle proposed by Nurkse, there are three main causes of poverty, namely undeveloped and underdeveloped human resources, lack of capital that causes low productivity, and imperfect markets (Ningshen & Primrose, 2023). Based on this theory, there are several things that can be done to reduce poverty, including increasing financial inclusion for easy access to capital and improving the quality of human resources calculated using the human development index.

Indonesia has the potential to become the center of the world's Islamic economy and finance. This can be seen from the Islamic Finance Development Index (IFDI) report, which is an index that measures the development of the Islamic financial sector. In the report, in 2022 Indonesia was ranked 3rd out of 136 countries, but this ranking decreased from the previous year 2021, where Indonesia was ranked 2nd (Refinitiv, 2022, 2023). Based on this phenomenon, it should be a driving force for Indonesia to increase Islamic financial inclusion considering that currently

the global market for the Islamic economic and financial sector continues to grow along with the growth of the Muslim population throughout the world. However, what happened in Indonesia based on a report from the World Bank in 2021 was that 48% or around 97 million adults in Indonesia did not even have an account (World Bank, 2022). By increasing financial inclusion, it is hoped that it can reduce the number of unbanked people, even though access to the financial sector is a basic right for everyone.

Indonesia is a country with the largest Muslim population in the world, but the Islamic financial inclusion index in Indonesia is much lower than conventional financial inclusion. In 2022 the conventional financial inclusion index is 85.10% while the Islamic financial inclusion index is only 12.12% (Financial Services Authority, 2022). So it can be concluded that in 2022 out of 100 residents only 12 people can access Islamic financial services. This is certainly an important concern for us about the importance of increasing Islamic financial inclusion given the need for Muslims to access usury-free finance. By increasing Islamic financial inclusion, it is hoped that people can use it to access capital, save, and invest so that they can increase productivity to avoid poverty. This is in line with research conducted by Nabil & Herianingrum (2022) which states that financial inclusion of Islamic banks has a significant negative effect on poverty. Novreska & Arundina (2024) also stated that Islamic financial inclusion has an effect on poverty.

In addition to improving access to capital by increasing financial inclusion, the quality of human resources also greatly affects the poverty rate. Qualified human resources will certainly help us to get out of the poverty trap, and alleviate poverty easily. But when the quality of human resources is poor, it will be difficult to get out of poverty. The human development index is a comprehensive measure of the level of development of the quality of human life, because the human development index is a way to calculate the quality of human life seen from various points of view such as education, health and decent living standards (Central Bureau of Statistics, 2019).

The human development index in Indonesia in 2022 was categorized as high at 72.91%. From 2018 to 2022 the human development index continued to increase. The increasing human development index should be able to reduce poverty as research conducted by Wulandari & Rambe (2024) which

states that the human development index has a negative effect on poverty. Other research conducted by Jamaliah & Elyta (2022) states that the human development index has a negative and significant effect on poverty. Jakarta and Yogyakarta are provinces that have the highest development index and are in the very high category. However, Yogyakarta is ranked 12th with the highest poverty rate.

Based on existing theory and research, the phenomenon in Indonesia is quite the opposite.
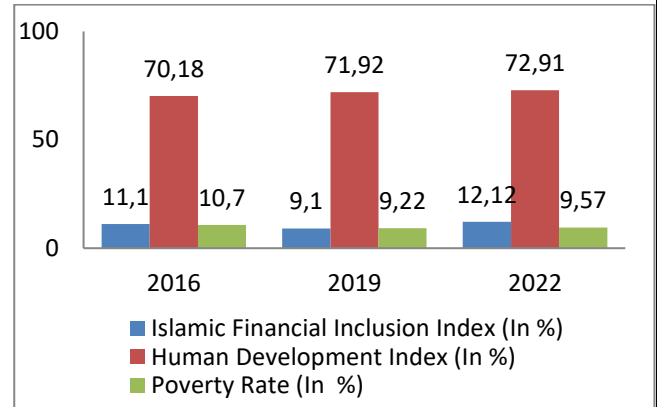
Figure 1.
Comparison of Islamic Financial Inclusion, Human Development Index and Poverty
Source: Central Bureau of Statistics and Financial Services Authority (2022)

Based on the figure above, it can be seen that in 2019 the Islamic financial inclusion index decreased and the poverty rate decreased. In 2022, the Islamic financial inclusion index increased but the poverty rate actually increased. Meanwhile, the human development index continues to increase, but in 2022 poverty actually increases. The difference between theory and existing phenomena is an interesting thing to research.

LITERATURE REVIEW
Poverty

Poverty is defined as the inability to achieve a minimum standard of living, measured by basic consumption needs or the income required to fulfill them. Poverty has many dimensions, including low consumption, malnutrition, illiteracy, low life expectancy, insecurity, powerlessness and low self-esteem. Poverty is also associated with frustration of capabilities due to asset deprivation, inability to obtain proper health and education services, and lack of power. This results in alienation from society, food insecurity, low salaries paid.

The poverty cycle theory proposed by Nurkse is defined as a situation of mutually reinforcing forces where certain factors are interconnected and result in the continuation of poverty and underdevelopment. In this theory, there are three main causes of poverty: imperfect markets, underdeveloped human resources, lack of access to capital, and low productivity (Deepashree, 2020). In measuring poverty in Indonesia using secondary data taken from the central statistics agency called the Head Count Index, which is the percentage of the population that is below the poverty line.

Islamic Financial Inclusion

According to the Global Financial index financial inclusion means focusing on the ownership and use of accounts at formal financial institutions. The United Nations argues that financial inclusion means the provision of affordable and sustainable financial services with the aim of attracting middle and lower class people to enter the formal economy, so that they can carry out financial activities that can ultimately eradicate poverty (Iskandar & Possumah, 2018). In this study, financial inclusion is measured using the measurement conducted by Sarma (2011) which has three dimensions, namely accessibility, availability, and usage. Several studies have provided substantial evidence showing the effect of financial inclusion on poverty. According to Koomson et al. (2020) financial inclusion is more likely to reduce poverty and vulnerability. Silva et al. (2021) also mentioned that financial inclusion has a negative effect on poverty and inequality.

Human Development Index

The human development index according to the Human Development Report is a process of increasing the choices that people have. Among the many choices that humans have, the most important choices are to live a long healthy life to be knowledgeable and to have access to the resources needed to live properly. The United Nations Development Program reveals that the human development index is an index that measures the socio-economic development achievements of a country that combines achievements in education, health and adjusted real income per capita (Ningshen & Primrose, 2023). In measuring the human development index, this study uses secondary data from the Central Bureau of Statistics. Research conducted by El Hasanah et al. (2022) shows that the human development index has

a negative effect on poverty in the origin and expansion areas in eastern Indonesia. Widiastuti et al. (2022) also showed the same result that the human development index has a negative effect on poverty.

2. METHODS

This research is a quantitative study that uses secondary data from the Central Bureau of Statistics and the Financial Services Authority. Researchers used Eviews 12 in analyzing the data. In the research sampling, purposive sampling technique was used so that out of 38 provinces only 33 provinces in Indonesia became research samples, because only 33 provinces provided complete data from 2018-2022 according to the research focus. This study uses panel data regression. The dependent variable analyzed is Poverty. The independent variables analyzed were Islamic financial inclusion and human development index (HDI). The calculation of Islamic financial inclusion variables is calculated using 3 dimensions, namely accessibility, availability, and usage with the following formula:

Table 1.
Dimensions and Indicators of Islamic Financial Inclusion Index

Dimension	Indicator
Accessibility (d1)	$d1 = \dfrac{Total\ of\ Islamic\ bank\ third-party\ fund}{Total\ Adults\ Population}$
Availability (d2)	$d2 = \dfrac{Total\ of\ Islamic\ bank}{Total\ Adults\ Population} \times 100,000$
Usage (d3)	$d3 = \dfrac{Total\ of\ Islamic\ bank\ financing}{GRDP} \times 1000$

Source: adopted from Sarma (2012)

The index of each dimension can be calculated using the following formula:

$$di = wi\ \frac{Ai-mi}{Mi-mi} \qquad (1)$$

Where:

Wi = Weight attached to dimension i indicator ($0 \leq wi \leq 1$)

Ai = The value of dimension i indicator in province and year

mi = Minimum value of dimension i in the sample

Mi = Maximum value of dimension i in the sample

The weight used in this study is 1 for each dimension. After the value of each dimension, proceed with the following calculation:

$$X_1 = \frac{\sqrt{d1^2 + d2^2 + d3^2}}{\sqrt{w1^2 + w2^2 + w3^2}} \qquad (2)$$

$$X_2 = 1 - \frac{\sqrt{(W_1 - d_1)^2 + (W_2 - d_2)^2 + (W_3 - d_3)^2}}{\sqrt{w1^2 + w2^2 + w3^2}} \qquad (3)$$

If the X1 and X2 values have been obtained, the next step is to find the value of the Islamic financial inclusion index with the following formula:

$$IFII = \frac{1}{2}(X_1 + X_2) \qquad (4)$$

3. RESULTS AND ANALYSIS

The table shows the calculation results of the Islamic financial inclusion index in 33 provinces in Indonesia.

Table 2.
Islamic Financial Inclusion Index In Indonesia

Province	2018	2019	2020	2021	2022
Aceh	0.70	0.71	0.75	0.73	0.72
Jakarta	0.74	0.71	0.55	0.54	0.55
NTB	0.39	0.39	0.27	0.28	0.30
Yogyakarta	0.32	0.29	0.18	0.18	0.18
East Kalimantan	0.28	0.27	0.17	0.15	0.16
Riau Islands	0.23	0.21	0.13	0.12	0.30
South Kalimantan	0.24	0.22	0.14	0.13	0.13
West Sumatera	0.18	0.18	0.11	0.12	0.13
Bengkulu	0.18	0.17	0.11	0.10	0.11
Riau	0.14	0.14	0.09	0.09	0.21
West Kalimantan	0.16	0.14	0.09	0.10	0.11
Banten	0.15	0.15	0.09	0.10	0.10
West Java	0.15	0.14	0.09	0.09	0.10
South Sumatera	0.14	0.14	0.09	0.09	0.10
North Maluku	0.14	0.14	0.09	0.09	0.09
North Sumatera	0.14	0.14	0.09	0.08	0.09
Jambi	0.14	0.13	0.08	0.08	0.08
South Sulawesi	0.14	0.13	0.08	0.08	0.08
Bangka Belitung	0.11	0.11	0.07	0.07	0.08
Central Java	0.12	0.11	0.07	0.06	0.07
East Java	0.11	0.11	0.07	0.07	0.07
Southeast Sulawesi	0.10	0.10	0.06	0.06	0.06
Lampung	0.10	0.09	0.06	0.05	0.05
Central Sulawesi	0.08	0.08	0.05	0.05	0.06
West Sulawesi	0.07	0.07	0.04	0.05	0.05
Central Kalimantan	0.07	0.07	0.05	0.04	0.04
Gorontalo	0.07	0.06	0.04	0.04	0.05
Bali	0.08	0.07	0.04	0.04	0.04
West Papua	0.05	0.05	0.03	0.03	0.03
North Sulawesi	0.03	0.04	0.02	0.02	0.03
Maluku	0.04	0.03	0.02	0.02	0.02

Province	2018	2019	2020	2021	2022
Papua	0.03	0.02	0.01	0.01	0.01
NTT	0.00	0.00	0.00	0.00	0.00
Average	0.17	0.16	0.12	0.11	0.13

Source: processed by the author (2024)

The results of the calculation of the Islamic financial inclusion index in 33 provinces in Indonesia during the study period, namely 2018-2022, show that the highest Islamic financial inclusion occurred in 2018, and continued to decline until 2021 and in 2021 was the lowest level of Islamic financial inclusion. The value of Islamic financial inclusion per province in Indonesia shows that Aceh province is in the high category of Islamic financial inclusion and Jakarta Province is in the medium category, while the other 31 provinces have Islamic financial inclusion in the low category.

The Islamic financial inclusion index achieved by Indonesia is in the low category during the period 2018-2022. The decline in the Islamic financial inclusion index in most provinces in Indonesia has led to a low level of Islamic financial inclusion in Indonesia.

Table 3.
Human Development Index In Indonesia

Province	2018	2019	2020	2021	2022
Jakarta	80.47	80.76	80.77	81.11	81.65
Yogyakarta	79.53	79.99	79.97	80.22	80.64
East Kalimantan	75.83	76.61	76.24	76.88	77.44
Riau Islands	74.84	75.48	75.59	75.79	76.46
Bali	74.77	75.38	75.50	75.69	76.44
North Sulawesi	72.20	72.99	72.93	73.30	73.81
Riau	72.44	73.00	72.71	72.94	73.52
Banten	71.95	72.44	72.45	72.72	73.32
West Sumatera	71.73	72.39	72.38	72.65	73.26
West Java	71.30	72.03	72.09	72.45	73.12
Aceh	71.19	71.90	71.99	72.18	72.80
Central Java	71.12	71.73	71.87	72.16	72.79
South Sulawesi	70.90	71.66	71.93	72.24	72.82
North Sumatera	71.18	71.74	71.77	72.00	72.71
East Java	70.77	71.50	71.71	72.14	72.75
Bangka Belitung	70.67	71.30	71.47	71.69	72.24
Southeast Sulawesi	70.61	71.20	71.45	71.66	72.23
Bengkulu	70.64	71.21	71.40	71.64	72.16
Jambi	70.65	71.26	71.29	71.63	72.14
Central Kalimantan	70.42	70.91	71.05	71.25	71.63
South Kalimantan	70.17	70.72	70.91	71.28	71.84

Province	2018	2019	2020	2021	2022
South Sumatera	69.39	70.02	70.01	70.24	70.90
Lampung	69.02	69.57	69.69	69.90	70.45
Central Sulawesi	68.88	69.50	69.55	69.79	70.28
Maluku	68.87	69.45	69.49	69.71	70.22
Gorontalo	67.71	68.49	68.68	69.00	69.81
North Maluku	67.76	68.70	68.49	68.76	69.47
NTB	67.30	68.14	68.25	68.65	69.46
West Kalimantan	66.98	67.65	67.66	67.90	68.63
West Sulawesi	65.10	65.73	66.11	66.36	66.92
NTT	64.39	65.23	65.19	65.28	65.90
West Papua	63.74	64.70	65.09	65.26	65.89
Papua	60.06	60.84	60.44	60.62	61.39
Average	70.38	71.04	71.09	71.37	71.97

Source: Processed by the author (2024)

The results of the calculation of the human development index in 33 provinces in Indonesia during 2018-2022 show that the human development index in Indonesia continues to increase. The value of the human development index per province in Indonesia shows that the provinces of Jakarta and Yogyakarta are in the very high category in the human development index and the provinces of Gorontalo, North Maluku, West Nusa Tenggara, West Kalimantan, West Sulawesi, East Nusa Tenggara, West Papua and Papua are in the medium category, while the other 23 provinces have a high category of human development index.

The human development index achieved by Indonesia is in the high category during the 2018-2022 period. The increase in the human development index in various provinces in Indonesia caused Indonesia to enter the high category in the human development index.

Table 4.
Results of Descriptive Statistics

	Poverty Rate	Islamic Financial Inclusion	Human Development Index
Mean	0.106242	0.138303	71.16788
Median	0.090000	0.090000	71.30000
Maximum	0.270000	0.750000	81.65000
Minimum	0.030000	0.000000	60.06000
Std. Dev	0.054363	0.154898	3.971157
Observations	165	165	165

Source: Processed by the author (2024)

Based on the results of the table above, it can be concluded as follows:

a. With 165 observations in the 2018-2022 period, Indonesia has an average poverty rate of 0.106242 or 10.6242%.
b. With 165 observations in the 2018-2022 period, Indonesia has an average Islamic financial inclusion rate of 0.138303. this shows that Islamic financial inclusion in Indonesia is low.
c. With 165 observations in the 2018-2022 period, Indonesia has an average human development index level of 71.16788. this indicates that the human development index in Indonesia is classified as high.

Table 5.
Results of Chow Test

Effects Test	Statistic	d.f	Prob.
Cross-section F	283.602244	(32,130)	0.0000
Cross-section Chi-square	702.899533	32	0.0000

Source: Processed by the author (2024)

Based on the table above, the probability value is 0.0000 <0.05, so based on the chow test, the Fixed Effect Model (FEM) model is the right model to use.
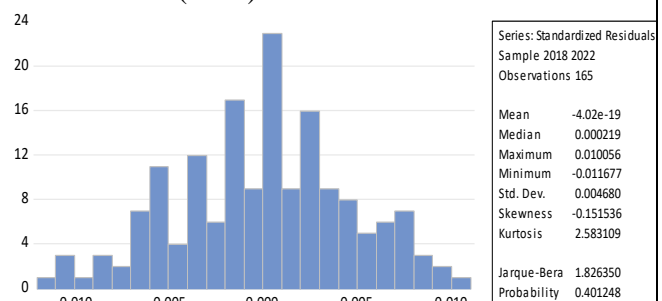
Table 6.
Results of Hausman Test

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f	Prob.
Cross-section random	11.140914	2	0.0038

Source: Processed by the author (2024)

Based on the table above, the probability value is 0.0038 <0.05, so based on the hausman test, the Fixed Effect Model (FEM) is the right model to use.

Based on the results of the chow test and the hausman test that have been carried out, both show that the most appropriate model to use is the Fixed Effect Model (FEM).

Series: Standardized Residuals
Sample 2018 2022
Observations 165

Mean	-4.02e-19
Median	0.000219
Maximum	0.010056
Minimum	-0.011677
Std. Dev.	0.004680
Skewness	-0.151536
Kurtosis	2.583109
Jarque-Bera	1.826350
Probability	0.401248

Figure 2.
Results of Normality Test
Source: Processed by the author (2024)

Based on the picture above, it can be seen that the probability value is 0.401248> 0.05, so it can be

concluded that the data in this study is normally distributed.

Table 7.
Results of Multikolinieritas Test

	Islamic Financial Inclusion	Human Development Index
Islamic Financial Inclusion	1.000000	0.444925
Human Development Index	0.444925	1.000000

Source: Processed by the author (2024)

The table above shows that the relationship between the independent variables in this study escapes the symptoms of multicollinearity, because the value between variables is 0.444925 <0.8.

Table 8.
Results of Heteroscedasticity Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.002764	0.004289	-0.644391	0.5202
Islamic Financial Inclusion	-0.001285	0.001577	-0.815369	0.4161
Human Development Index	9.38E-05	6.15E-05	1.525685	0.1290

Source: Processed by the author (2024)

Based on the table above, it shows that the probability value of Islamic financial inclusion is 0.4161 > 0.05, and the value of the human development index is 0.1290 > 0.05. this indicates that there is no heteroscedasticity problem.

Table 9.
Determination Coefficient Test Results

R-squared	0.992590
Adjusted R-squared	0.990652

Source: Processed by the author (2024)

The coefficient of determination test results show that the Adjusted R-squared value is 0.990652. It can be concluded that Islamic financial inclusion and the human development index are able to explain the problem of poverty by 99.0652%, while 0.9348% is influenced by other variables not included in this study.

Table 10.
F Test Results

F-statistic	Prob(F-statistic)
512.1788	0.000000

Source: Processed by the author (2024)

The f test results above show a significance value of 0.000000 <0.05. This shows that Islamic financial inclusion and human development index simultaneously affect poverty. The results of this study are in accordance with the theory put forward by Nurkse that poverty is caused by lack of access to capital, and underdeveloped human resources so that it is necessary to increase financial inclusion and human development index.

Table 11.
T Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.380267	0.062275	6.106244	0.0000
Islamic Financial Inclusion	-0.047589	0.013576	-3.505452	0.0006
Human Development Index	-0.003758	0.000863	-4.354603	0.0000

Source: Processed by the author (2024)

The t-test results show that the significance value of Islamic financial inclusion is 0.0006 <0.05. This shows that Islamic financial inclusion has a significant negative effect on poverty, which means that if Islamic financial inclusion decreases, the poverty rate will increase. The results of this study are in line with research conducted by Khan et al. (2022), Omar & Inaba (2020) which state that financial inclusion affects poverty reduction.

The more inclusive the financial system in a region, the more the region has succeeded in reducing or removing barriers to accessing financial services. That way the region has succeeded in making its people reach access to financial services, so that people are able to utilize financial service products to manage their financial conditions with the aim of achieving a more prosperous life. The fluctuating financial inclusion in various provinces affects the increase and decrease of poverty in Indonesia. Increasing Islamic financial inclusion can be a solution in reducing poverty because the transaction system is usury-free so that there is no injustice in the transactions carried out.

The t-test results also show that the significance value of the human development index is 0.0000 <0.05. This shows that the human development index has a significant negative effect on poverty, which means that if the human development index falls, the poverty rate will increase. The results of this study are in line with research conducted by Amaluddin et al.

(2018), Yusuf & Dai (2020) which state that the human development index affects poverty reduction.

If the higher the human development index in a region, it shows the quality of human resources in the region. The good quality of human resources will certainly have the value of obtaining a high salary, thus increasing purchasing power so that welfare is created and poverty is avoided.

4. CONCLUSION

From the results of research that has been conducted in 33 provinces in Indonesia with data from 2018 - 2022, it can be concluded that Islamic financial inclusion in various provinces in Indonesia has fluctuated. Almost all provinces in Indonesia have low Islamic financial inclusion. Only Aceh Province has high Islamic financial inclusion, and Jakarta has moderate Islamic financial inclusion. The human development index in Indonesian provinces continues to increase. Jakarta and Yogyakarta fall into the very high category of human development index, while 23 other provinces fall into the high category, and 12 provinces fall into the medium category.

Increasing Islamic financial inclusion and human development index can be a solution in alleviating poverty. For this reason, the government is expected to be able to provide adequate public facilities, especially financial facilities, especially banking so that people can easily access capital, save and invest. Education, health facilities equally in various provinces in Indonesia so that people can be more productive to fulfill their needs properly.

We also suggest that the Financial Services Authority can publish more comprehensive Islamic financial inclusion data and do it every year, not just every 3 years considering the importance of Islamic financial inclusion in poverty alleviation.

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