

**ANALYSIS THE EFFECT OF ISLAMIC BANK FINANCING  
ON THE HUMAN DEVELOPMENT INDEX  
(a Case Study of 15 Cities on Java Island in 2015-2021)**



**THESIS**

**SUBMITTED TO FACULTY OF ISLAMIC ECONOMICS AND BUSINESS  
STATE ISLAMIC UNIVERSITY SUNAN KALIJAGA YOGYAKARTA  
AS PARTIAL FULFILLMENT OF THE REQUIREMENTS  
FOR THE DEGREE OF BACHELOR OF ISLAMIC ECONOMICS**

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**2022**

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**2022**



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## APPROVAL

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*Assalamu 'alaikum Wr. Wb*

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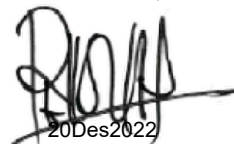
Has deserved to be submitted to the Faculty of Islamic Economics and Business, Sharia Economic Department, State Islamic University Sunan Kalijaga Yogyakarta, as partial fulfillment of the degree of bachelor of the economy.

With this, we expect this undergraduate thesis to be trialed. Thank you for your consideration.

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## APPROVAL OF FINAL PUBLICATION FOR ACADEMIC PURPOSE

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**PAGE OF MOTTO**

{...لَوْ كَانَ الْبَحْرُ مِدَادًا لَكَلِمَتِ رَبِّي لَنَفَذَ الْبَحْرُ قَبْلَ أَنْ تَنْفَدَ كَلِمَتُ رَبِّي وَلَوْ جِئْنَا بِمِثْلِهِ مَدَدًا }

(Al-Kahfi:109)

تَرَجُّو النِّجْمَةَ وَلَمْ تَسْأَلْهَا  
إِنَّ السَّفِينَةَ لَا تَجْرِي عَلَى الْيَبْسِ  
(ابو العتاهية)



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**PAGE OF DEDICATION**

I dedicated this undergraduate thesis to my beloved family, my father Muh. Muslih, my mother Qomariyah, my sisters and brother, Rasika, Asila, and Badi'.





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In the name of Allah SWT, the beneficent and merciful. All Praise and gratitude to the Almighty Allah SWT, the lord of the worlds and the most merciful, who has given His grace and gifts so that the author can accomplish the undergraduate thesis. Peace and blessing of Allah may continue to His Last Prophet and Messenger, Muhammad SAW, who has brought his companions from the darkness to the lightness.

The author received much assistance and insight from various parties in preparing this thesis. Therefore, the author would like to express his gratitude to these parties. Earnest gratitude is with this delivered upon:

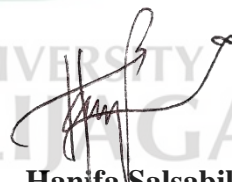
1. Prof. Dr. Phil. Al Makin, S.Ag., M.A., as the great Rector of State Islamic University Sunan Kalijaga Yogyakarta.
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Honestly, I realize that this undergraduate thesis lacks of many things. Therefore, I hope that criticism and suggestion for its perfection will be helpful to the reader.

Yogyakarta, 19 December 2022

Author,



**Hanifa Salsabila**  
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## TABLE OF CONTENTS

<b>TITLE PAGE .....</b>	<b>i</b>
<b>ENDORSEMENT PAGE .....</b>	<b>ii</b>
<b>APPROVAL .....</b>	<b>iii</b>
<b>STATEMENT OF AUTHENTICITY.....</b>	<b>iv</b>
<b>APPROVAL OF FINAL PUBLICATION FOR ACADEMIC PURPOSE.....</b>	<b>v</b>
<b>PAGE OF MOTTO.....</b>	<b>vi</b>
<b>PAGE OF DEDICATION .....</b>	<b>vii</b>
<b>ACKNOWLEDGMENTS .....</b>	<b>viii</b>
<b>TABLE OF CONTENTS.....</b>	<b>x</b>
<b>LIST OF TABLES .....</b>	<b>xii</b>
<b>LIST OF FIGURES .....</b>	<b>xiii</b>
<b>ABSTRACT .....</b>	<b>xiv</b>
<b>ABSTRAK .....</b>	<b>xv</b>
<b>CHAPTER I</b>	
<b>INTRODUCTION.....</b>	<b>1</b>
A. Background .....	1
B. Research Questions .....	8
C. Research Objectives .....	8
D. Research Contributions .....	9
E. The Outline.....	9
<b>CHAPTER II</b>	
<b>THEORETICAL BASE AND HYPOTHESIS.....</b>	<b>11</b>
A. Theoretical Base.....	11
1. Human Development Index (HDI).....	11
2. Islamic Bank Financing .....	13
3. Poverty.....	18
4. Gross Domestic Regional Product (GRDP) .....	21
B. Literature Review .....	24
C. Hypothesis Development .....	30
D. Conceptual Framework .....	33

**CHAPTER III****RESEARCH METHODOLOGY .....34**

- A. Types of Research ..... 34
- B. Data Types and Sources ..... 34
- C. Variable Operational Definition..... 35
- D. Analysis Methods..... 36

**CHAPTER IV****RESULT AND DISCUSSIONS .....44**

- A. Data Analysis ..... 44
  - 1. Descriptive Analysis..... 44
  - 2. Estimation of Panel Regression Model ..... 46
  - 3. Estimation Result ..... 49
  - 4. Classical Assumption Test ..... 51
  - 5. Analysis Result and Model Feasibility Test..... 54
- B. Discussions..... 59
  - 1. The Impact of Islamic Bank Financing on the Human Development Index (HDI)..... 59
  - 2. The Impact of Poverty on the Human Development Index (HDI)..... 60
  - 3. The Impact of Gross Regional Domestic Product (GRDP) on the Human Development Index (HDI) ..... 62

**CHAPTER V****CONCLUSIONS AND SUGGESTIONS .....64**

- A. Conclusions ..... 64
- B. Suggestion ..... 65

**BIBLIOGRAPHY .....67****ATTACHMENT.....71**

**LIST OF TABLES**

Table 1.1 Islamic Bank Financing Average.....	5
Table 2.1 The Differences between Islamic Bank Financing and Conventional Loan.....	18
Table 2.2 Previous Research.....	26
Table 4.1 Statistics Descriptive Result.....	44
Table 4.2 Common Effect Model.....	46
Table 4.3 Fixed Effect Model.....	47
Table 4.4 Random Effect Model.....	48
Table 4.5 Chow Test Result.....	50
Table 4.6 Hausman Test Result.....	50
Table 4.7 Normality Test.....	51
Table 4.8 Multicollinearity Test.....	52
Table 4.9 Random Effect Model.....	55
Table 4.10 Partial Test (t-test).....	56

**LIST OF FIGURES**

Figure 1.1 Human Development Index in Indonesia 2015-2021 .....	2
Figure 1.2 The Growth of the Islamic Bank Office in Indonesia 2015-2021 .....	3
Figure 1.3 Islamic Bank Financing in Indonesia 2015-2021 .....	4
Figure 2.1 Conceptual Framework.....	33
Figure 4.1 Autocorrelation Test .....	52
Figure 4.2 Heteroscedasticity Test .....	53
Figure 4.3 Feasible Generalized Least Square (FGLS) Result .....	54

## ABSTRACT

The Human Development Index (IPM) measures how people can access development results in obtaining income, health, and education. This study aimed to determine whether Islamic bank financing, poverty, and Gross Regional Domestic Product (GRDP) have a relationship and influence the Human Development Index in 15 cities in Java Island for 2015-2021. The quantitative approach uses secondary data from the Financial Services Authority (OJK) for Islamic bank financing data. In contrast, Poverty and GRDP data from the Central Bureau of Statistics (BPS). The data used in this study is annual data from 2015 to 2021. The estimation method used is panel data regression with the Random Effects model. The study results show that the Islamic bank financing variable has a significant positive effect on HDI. Meanwhile, the Poverty and GRDP variables significantly and negatively affect the Human Development Index. Simultaneously, the variables of Islamic bank financing, poverty, and GRDP affect the Human Development Index.

Keywords: *Islamic Bank Financing, Human Development Index, Poverty, Gross Regional Domestic Product.*



## ABSTRAK

Indeks Pembangunan Manusia (IPM) merupakan ukuran capaian bagaimana penduduk mendapatkan hasil dari pembangunan guna memperoleh pendapatan, kesehatan, dan pendidikan. Tujuan penelitian ini adalah untuk mengetahui dan membuktikan apakah pembiayaan bank syariah, kemiskinan dan Produk Domestik Regional Bruto (PDRB) memiliki hubungan dan pengaruh terhadap Indeks Pembangunan Manusia di 15 kota dan kabupaten di Pulau Jawa periode 2015-2021. Pendekatan yang digunakan adalah pendekatan kuantitatif dengan menggunakan data sekunder yang diperoleh dari Otoritas Jasa Keuangan (OJK) untuk data Pembiayaan bank syariah sedangkan data Kemiskinan dan PDRB didapat dari Badan Pusat Statistik (BPS) yang berbentuk data tahunan dari tahun 2015 sampai 2021. Metode estimasi yang digunakan adalah regresi data panel dengan model *Random Effect*. Hasil dari penelitian menunjukkan bahwa variabel Pembiayaan bank syariah berpengaruh positif signifikan terhadap IPM. Sedangkan variabel Kemiskinan dan Produk Domestik Regional Bruto (PDRB) menunjukkan bahwa terdapat pengaruh negative signifikan terhadap Indeks Pembangunan Manusia (IPM) di 15 kota dan Kabupaten. Adapun hasil regresi secara bersama-sama menunjukkan bahwa variabel Pembiayaan bank syariah, Kemiskinan dan Produk Domestik Regional Bruto (PDRB) berpengaruh terhadap Indeks Pembangunan Manusia di 15 kota.

Kata Kunci: *Pembiayaan Bank Syariah, Indeks Pembangunan Manusia, Kemiskinan, Produk Domestik Regional Bruto.*

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## CHAPTER I

### INTRODUCTION

#### A. Background

Human development may be an improvement that creates people as the center and the last target of all improvement activities. The accomplishment of control over human assets is to get a salary to realize a conventional life, make strides in the quality of well-being so that they can live long and solid, and make strides in instruction to pick up the capacity to take part in the community and economic activities.

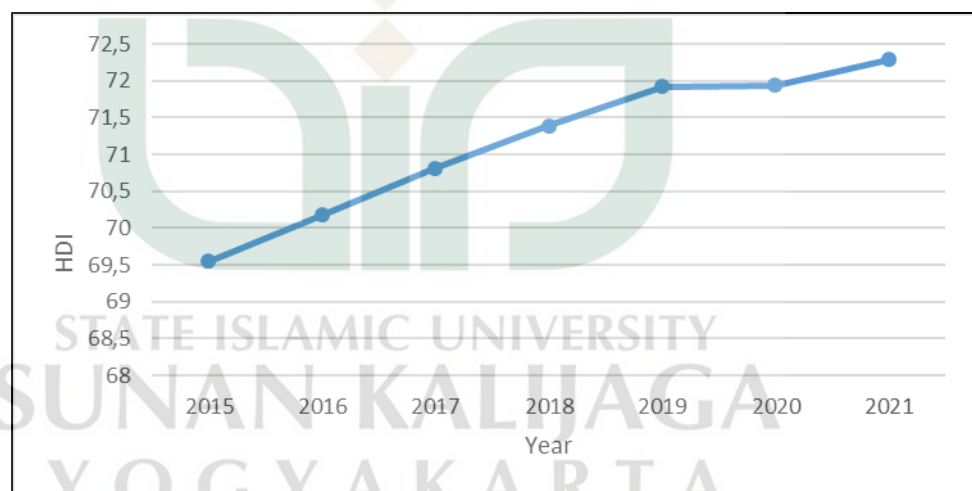
A measuring apparatus to decide the quality and improvement of human assets is by looking at the Human Development Index (HDI). The Human Development Index (HDI) was presented by the joined together United Nations Development Program (UNDP) in 1990 in an arrangement of yearly reports entitled "Human Advancement Report.". This index is prepared as one of the alternative indicators to assess the success of development carried out by a country. The HDI of countries in the world classifies into three groups: high, medium, and low. Based on (Badan Pusat Statistik, n.d.), HDI clarifies how the populace can access income, well-being, and education advancement results. HDI has shaped three fundamental measurements long life and good life, knowledge, and a conventional standard of living.

According to (Sania et al., 2021), there are two reasons underlying human development. First, numerous creating countries have achieved high financial

development but fizzled in diminishing the gap in human improvement. Moment, human resources use as input in financial development preparation. If human development is fruitful, the quality of human development will be way better. As a result, it can energize the speeding up of financial development.

Indonesia, as a developing country trying to be a developed country. The government is trying to improve all aspects of the economy and human resources. As a result, HDI in Indonesia has increased over the last seven years. In 2015 it was about 69.5, which has increased in 2021 to 72.29 (Badan Pusat Statistik, n.d.). HDI growth has increased yearly (figure 1.1), so it can interpret that HDI in the regions has also increased.

**Figure 1.1 Human Development Index in Indonesia 2015-2021**



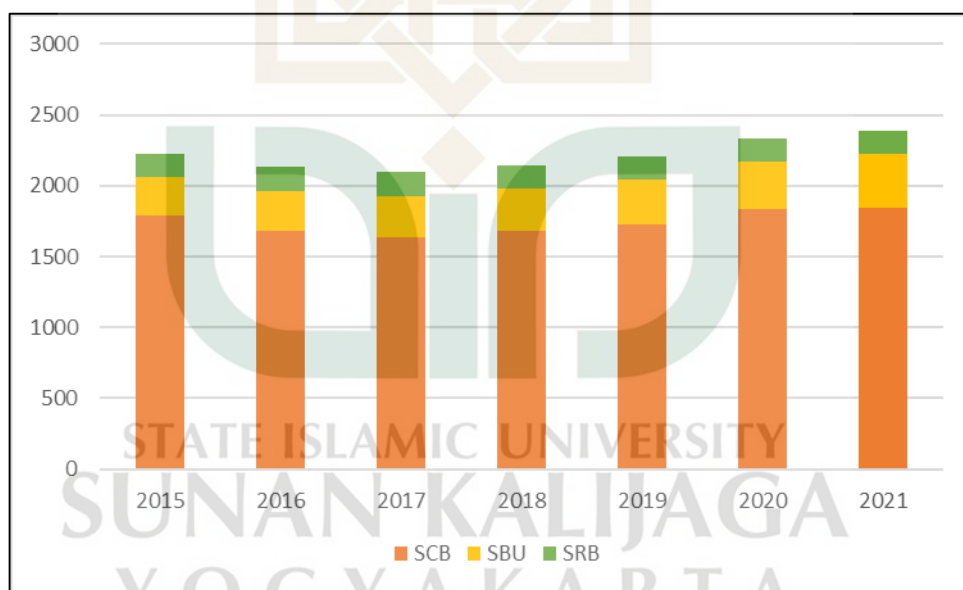
Source: bps.go.id (2022) (processed data)

The income point shows how humans can earn income obtained in the HDI component. Entrepreneurship is one way to earn an income. The capital is the main point of starting a trading business. Capital funds can obtain by borrowing

money from conventional banks or financing in Islamic banks. The level of financing issued can indicate the running of existing entrepreneurship.

Islamic financing is public funding following sharia contracts' principles. The term financing is used in Islamic banks, while in conventional banks, it is called credit (Dahlan, 2012). Islamic financing obtains through Sharia Commercial Banks (SCB), Sharia Business Units (SBU), or Sharia Rural Banks (SRB) that have spread in many regions in Indonesia, where the number of offices continues to grow each year, as shown in 2015 to 2021 in figure 1.2.

**Figure 1.02 The Growth of the Islamic Bank Office in Indonesia 2015-2021**

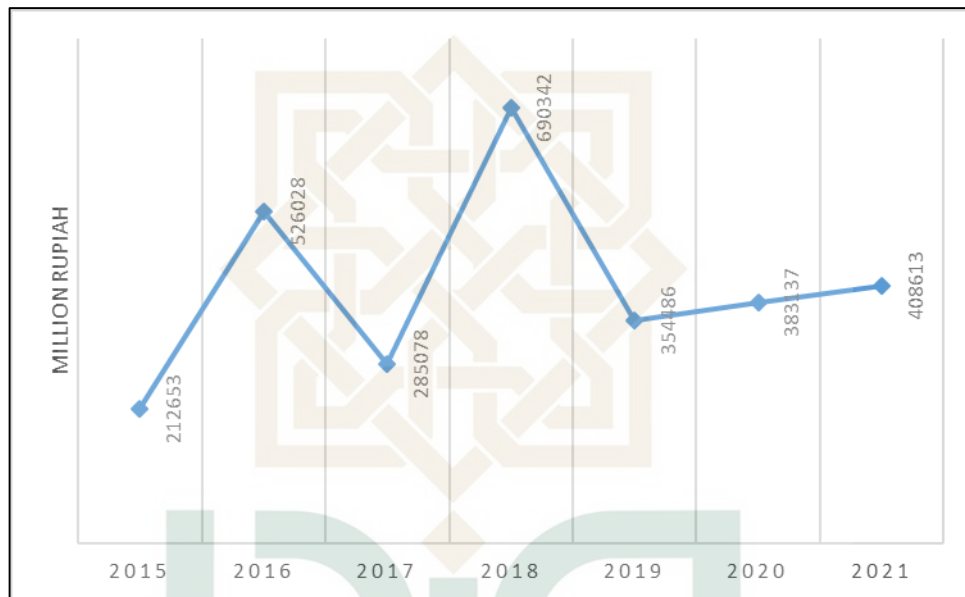


Source: ojk.go.id (2022) (processed data)

The increase in the number of sharia offices is one sign that the products in Islamic banks are increasingly in demand from the public. Islamic banks offer various service products, such as services and financing. Therefore, the increase in offices is also a reason to provide easy access to the facilities provided to the public to obtain the services offered. The increasing number of Islamic bank

offices increases the number of Islamic financing yearly. Based on chart 1.3, the financing in 2015 was 212,653 billion and in 2021 was 408,613 billion. The data shows fluctuations from 2015-2021.

**Figure 1.3 Islamic Bank Financing in Indonesia 2015-2021**



Source: ojk.go.id (2022) (processed data)

Indonesia is an archipelagic country where several provinces are separated by the sea, which hampers the speed of access to transportation. Therefore, Indonesia still has problems regarding economic equity. Java Island is still an island that has superior provinces in terms of economy and even education compared to other provinces.

Java Island is not the largest in Indonesia compared to other islands. The group of provinces on the Java island still dominates Indonesia's economy's spatial structure in 2021, with a contribution of 57.89 percent and a growth of 3.66 percent (BPS, 2022). Likewise, in the Islamic banking sector. Islamic

banking is still dominating and divided into Sharia Business Units (SBU) and Sharia Rural Banks (SRB). Currently, the financing distribution is concentrated in Java at 71.19 percent, especially DKI Jakarta at 40.19 percent. If viewed from the area, as of May 23, 2019, the Financial Service Authority (OJK) said that 90 percent of loan disbursements were still on the island of Java. Moreover, the distribution of financing outside Java is only 5.2 Billion, while in Java, it is 31.8 Billion (Yulianti, 2020).

**Table 01.1 Islamic Bank Financing Average**

City	Average	City	Average
South Jakarta	80680	Malang	4344
Central Jakarta	41635	Cirebon	4144
East Jakarta	17329	Yogyakarta	3967
Surabaya	16542	Tangerang (reg)	3041
Bandung	15551	Sidoarjo	2647
West Jakarta	11251	Tasikmalaya	2549
Semarang	7802	Depok	2169
Bekasi	7268	Cilegon	1568
North Jakarta	6946	Kediri	1344
Surakarta	6447	Banyumas	1338
Bogor	6000	Tegal	1298
Tangerang	4622	Jember	1255

Source: ojk.go.id (2022) (processed data)

The table is the result of the average financing of Islamic banks in several top cities on the island of Java in the three years 2019-2021. The city of Jakarta primarily owns the top five averages, but in this research, only South Jakarta can see from other cities. South Jakarta has the highest average taken in the study, which is 80,680 Billion, while the lowest Jember average is 1,255 Billion. Furthermore, this research only examines 15 cities, so the 15 cities taken for

research are South Jakarta, Surabaya, Bandung, Semarang, Bekasi, Surakarta, Tangerang, Malang, Sidoarjo, Cirebon, Yogyakarta, Tasikmalaya, Tegal, Jember, and Banyumas.

Deciding the welfare of a community and the victory of a region's advancement showed from a financial point of view by the expansion in Gross National Product (GNP) on a national scale amid Gross Regional Domestic Product (GRDP) on a territorial level. Economic growth is an indicator to assess the development progress level and is one of the impacts of the economic policies implemented. Moreover, people's acquiring control to expend an item is closely related to the human development index since acquiring control is one of the markers within the human development index (Todaro & Smith, 2006). The occurrence of an increase or decrease in GRDP in an area indicates a change in people's purchasing power in an area. As a result, the purchasing power of the people in an area affects human development in that area (Handayani & Woyanti, 2021).

Human development in Indonesia is synonymous with poverty diminishment, and the venture into education and well-being will be more significant to the destitute (Syofya, 2018). Poverty has an adverse effect on HDI. The negative impact can happen since poverty stems from the obtaining control of individuals incapable of meeting fundamental needs. As a result, their health and education needs can not neglect (Mirza, 2011). Moreover, regional autonomy allows each region to manage budgets and allocate development programs in the health and literacy sectors to increase economic growth and

reduce poverty. If the poverty factor reduces, it will develop better human resources, increasing welfare.

Previous research on the impact of Islamic bank financing on the human development index is still rare, but some can still be found, such as that conducted by Wardani & Al Arif (2021). His research concluded that Islamic financing influences the Human Development Index. He recommended that the government attempt to extend efficiency and individuals' purchasing power to extend the solidness of financial development and advance the increment of the HDI. However, other studies that support this statement but use a different method, path analysis (Risyadi, 2018; Yulita Amalia et al., 2019), also show the same results. However, the research conducted by Afandi et al. (2019) shows contradictory results where Islamic bank financing does not influence the human development index.

The area of the object of research tends to be at the Indonesian national level (Khusnul, 2014b; Risyadi, 2018; Wardani & Al Arif, 2021; Yulita Amalia et al., 2019). In addition, path analysis methods vary (Risyadi, 2018; Wardani & Al Arif, 2021; Yulita Amalia et al., 2019), and some use panel regression (Khusnul, 2014b; Nurdany, 2016). Therefore, this research is written in several areas at the city/district level on the island of Java, where the island of Java itself is an island that tends to be superior to others. Furthermore, the end of the research year used is 2021, which tends to be new because this research is in 2022.

Based on the previous explanation, this undergraduate thesis discuss the influence of Islamic bank financing, GRDP, and Poverty on HDI. This research only covers a few areas in Indonesia. Therefore, the researcher took the title "Analysis the Effect of Islamic Bank Financing on the Human Development Index, a Case Study of 15 Cities on Java Island in 2015-2021."

#### B. Research Questions

Based on the statement of background above, there are following questions come off in this research:

1. How does Islamic bank financing affect the Human Development Index?
2. How does poverty affect the Human Development Index?
3. How does Gross Regional Domestic Product affect the Human Development Index?

#### C. Research Objectives

The purposes of this thesis are:

1. To inspect the impact of Islamic bank financing on the Human Development Index in Java from 2015 to 2021.
2. To analyze the influence of poverty on the Human Development Index in Java from 2015 to 2021.
3. To analyze the effect of Gross Regional Domestic Product on the Human Development Index in Java from 2015 to 2021.



#### D. Research Contributions

The contributions of this research are:

1. For local government

The research can reference Local Government for determining better policies and management. As a result of this research, factors that can increase HDI consider making a better HDI in other regions. Therefore, this research held in Java districts and cities can be benchmarks and examples for other local governments.

2. For author

The study can improve the author's knowledge about the Human Development Index and the factors of Islamic bank financing, Poverty, and Gross Regional Domestic Product (GRDP) that affect it in some districts and cities in Java. Moreover, it can deepen the author's understanding of data processing so that it can generate new conclusions.

3. For future research

The results of this research can be one of the references for further research related to the topic of the Human Development Index and the factors that influence it in some districts and cities in Java.

#### E. The Outline

The outline of this research has five chapters, as mentioned below:

Chapter I Introduction. This first chapter discusses the research background, problem formulation, benefits of research, and systematic discussion.

Furthermore, it describes the phenomena and problems that underlie this research. The description of this research supports by data, theories, and previous research.

Chapter II Literature Review. This chapter mentions definitions, concepts, and matters relating to the variables involved in this research. They were from books, articles, and journals. In addition, this chapter depicts the hypothesis that underlies the relationship between essential factors related to past inquiries, the hypothesis of creating speculations, and the system of thought in this investigation.

Chapter III Research Methodology. The chapter notices the inquiry about the type of research, the information sorts and sources, the investigative model, the variables, and the information examination as an investigation instrument to conduct this investigation.

Chapter IV Result and Discussion. The chapter involves an overview of the research object, the descriptive analysis, and the result discussions. Besides, the data analysis obtained from this research uses the necessary analysis tools.

Chapter V Conclusions and Suggestions. The last chapter serves as the result of the discussions and answers to research questions. In addition, this chapter contains suggestions for those interested in this research and deficiencies in conducting this research.

## CHAPTER V

### CONCLUSIONS AND SUGGESTIONS

#### A. Conclusions

This research aims to identify and interpret the influence of Islamic bank financing, Poverty, and Gross Regional Domestic Product (GRDP) on the Human Development Index. Based on the estimation results above, the conclusions drawn are as follows:

1. The estimation results of Islamic bank financing on the Human Development Index using a panel data regression random effect model as an estimator have a significant positive effect on increasing the Human Development Index. The increase in Islamic bank financing causes an increase in the production of goods and services, thus causing the exchange of goods and services, which is an economic activity that can increase welfare. The increase in economic activity shows an increase in the people's standard of living, where the standard of living is one of the elements of the Human Development Index.
2. Poverty estimation results on the Human Development Index using panel data regression random effect model as an estimator has a significant adverse effect on the Human Development Index. Poverty causes low work productivity in the population. Low productivity results in low income. this can decrease the HDI level, where income can affect HDI. Low productivity happens because the poor spend more

energy and time fulfilling their basic needs. Unfortunately, they are not interested in involving themselves in activities except for their essential needs.

3. The Gross Regional Domestic Product (GRDP) estimation results on the Human Development Index (HDI) using the panel data regression random effect model as an estimator have a significant negative effect. An increase in GRDP can positively affect HDI because output per capita can affect economic growth. However, GRDP in this study was able to reduce HDI. The negative effect is due to instability and a decrease in the value of GRDP.

#### B. Suggestion

Below are some valuable insights for further study and suggestions for making policy.

1. The government hopes to continue seeking various ways to increase the Human Development Index. As in improving the poverty rate and increasing GRDP in various regions.
2. This research shows a negative relationship between GRDP to HDI. Therefore it is hoped that the government can make good policies and decisions to prepare and anticipate the possibilities that will occur so that there is no decrease in GRDP in the coming years.

3. For the Institution, it hoped to continue expanding the distribution of Islamic banks in areas that are not yet available. Likewise, to continue to increase the provision of Islamic bank financing.
4. It hopes that future researchers will be able to develop this research with other variables that can affect the Human Development Index.



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