

Human Development and Its Determinants in Indonesia: Insights from Islamic Economic Framework

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Abstract

This study aims to analyze the influence of economic, social, regional, and fiscal policies, as well as Islamic social financial instruments, on the Human Development Index (HDI) in Indonesia. The variables used include the distribution of zakat, infaq, and alms (ZIS) funds, GDP per capita, poverty rate, unemployment rate, income inequality (Gini Ratio), realization of the health and education sector APBD, and ultra-micro financing (UMi). This study uses a quantitative, panel-data regression approach on 34 provinces in Indonesia during the period 2015–2024. The model selection was conducted using the Chow and Hausman tests, which indicated that the Fixed Effect Model (FEM) is the best. The results of the study show that ZIS, GDP per capita, realization of the health sector APBD, realization of the education sector APBD, and ultra-micro financing (UMi) have a positive and significant effect on HDI. On the other hand, poverty and unemployment rates have a negative and significant effect on HDI. Meanwhile, income inequality has no significant effect on HDI. These findings indicate that improvements in the quality of human development are influenced not only by economic growth but also by welfare distribution, local government fiscal policies, and the optimization of Islamic social financial instruments. This study contributes to the literature in three specific ways. First, it provides new empirical evidence on the role of Islamic social finance, particularly ZIS and ultra-micro financing, as complementary instruments to conventional fiscal policy in improving human development at the provincial level. Second, it offers a comprehensive integrated framework that simultaneously evaluates economic performance, fiscal policy, and social finance within a single panel-data model. Third, by using recent provincial-level data, this study captures regional heterogeneity and temporal dynamics that are often overlooked in aggregate analyses. The policy implications show the importance of increasing the effectiveness of education and health spending, strengthening poverty alleviation and job creation programs, and optimizing the management of ZIS and UMi financing to encourage inclusive and sustainable human development.

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INTRODUCTION

Economic development is measured not only by economic growth but also by the extent to which it improves the community's quality of life. In the context of modern development, the human development approach is an important indicator of a country's development success (Hasibuan, Rujiman, & Sukardi, 2020). The most commonly used indicator of human development is the Human Development Index (HDI), which reflects development achievements across three main dimensions: health, education, and a decent standard of living (Mirza, 2012). HDI is an important indicator because it can more comprehensively describe people's welfare than economic growth indicators alone, such as gross domestic product (GDP).

In recent decades, Indonesia's HDI has shown significant improvement. However, the increase still faces various structural challenges such as poverty, unemployment, and income inequality (Prasetyoningrum & Sukmawati, 2018). High levels of poverty and unemployment can limit people's ability to access education and health services, potentially reducing the quality of human development (Nurlina, Ridha, & Asnidar, 2022). In addition, income distribution inequality is also one of the important issues that can affect the equitable distribution of people's welfare. Therefore, efforts to improve human development require an approach that not only focuses on economic growth but also considers income distribution, employment opportunities, and access to basic services (Lumbantoruan & Hidayat, 2014; Mayapada, Yanti, & Syarifuddin, 2022).

The government's role is very important in improving the quality of human development through fiscal policy, especially through spending on education and health. The realization of the Regional Revenue and Expenditure Budget (APBD) in the education and health sectors is a form of the government's commitment to improving the quality of human resources (Lantion, Musñgi, & Cabauatan, 2023). Increasing government spending in these two sectors is expected to expand public access to quality education and health services, thereby increasing life expectancy, educational attainment, and people's living standards (Fadilah, Ananda, & Kaluge, 2018). In addition, the community economic empowerment program through micro business financing (UMi) is one of the important strategies for improving people's welfare, especially for small and medium businesses that have limited access to formal financing sources.

On the other hand, from the perspective of Islamic economics, human development is not viewed solely from a material perspective but also from those of social justice and welfare distribution. Islamic social financial instruments, such as zakat, infaq, and alms, have significant potential to support poverty alleviation efforts and improve community welfare (Tambunan et al., 2022). Optimal distribution of Zakat funds can help people experiencing poverty in meeting basic needs and support community economic empowerment programs. Therefore, integrating government economic policies with the optimization of Islamic social financial instruments can be an effective strategy for promoting sustainable human development.

The novelty of this research lies in an analytical approach that integrates macroeconomic factors, local government fiscal policies, and Islamic economic instruments in explaining the determinants of HDI. Most previous research has focused only on conventional economic variables such as economic growth, poverty, and unemployment. At the same time, this study also included variables on APBD implementation in the health and education sectors, ultra-micro financing (UMi) for MSMEs, and the distribution of zakat, infaq, and alms (ZIS) funds as part of Islamic economic and social finance instruments. The integration of these variables provides a more comprehensive perspective on understanding the factors that affect human development. The urgency of this research lies in the importance of formulating a development strategy that not only focuses on economic growth but also on equitable distribution of welfare, improving the quality of human resources, and empowering the community's economy through fiscal policies and optimization of Islamic economic instruments to encourage sustainable improvement in the quality of human development.

Given these conditions, it is important to analyze factors that can affect human development, including macroeconomic factors, government fiscal policies, and Islamic social financial instruments. This study aims to analyze the influence of zakat distribution, economic growth as measured through GDP per capita, poverty rate, unemployment rate, income inequality, realization of the APBD in the health and education sectors, and ultra-micro financing (UMi) on HDI in Indonesia. The

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results of this research are expected to enrich the study of the determinants of human development and to inform the government's formulation of more inclusive and sustainable development policies.

METHOD

Research Approach

This study uses an associative quantitative approach to analyze the relationships and influences of economic and social variables on HDI in Indonesia. The quantitative approach was chosen because this study uses statistical analysis of numerical data to test hypotheses about factors that influence human development.

The data used in this study are secondary data obtained from various official institutions, including the Central Statistics Agency, the National Amil Zakat Agency, the Directorate General of Financial Balance of the Ministry of Finance, and the Financial Services Authority. The data includes indicators of human development, economic conditions, income distribution, and ultra-micro financing (UMi) at the provincial level in Indonesia.

The units of analysis in this study are 34 provinces in Indonesia with an observation period of 2015–2024. The data structure combines time-series and cross-sectional data to form a data panel. This approach allows the research to analyze the dynamics of changes in human development over time while examining differences in characteristics across provinces more comprehensively.

Research Models and Regression Equations

Previous studies on factors affecting HDI have shown that human development is influenced by various economic, social, and cultural factors related to the distribution of community welfare (Runtunuwu, 2020; Wahyuningsih & Andika, 2026). By adjusting the Islamic economic context in Indonesia, this study integrates several variables theoretically and empirically related to improving the community's quality of life. The variables used in this study include Islamic economic instruments such as Zakat and Waqf, as well as the development of ultra-micro financing (UMi) in Sharia Banks, combined with socioeconomic variables such as poverty levels and economic growth. The integration of these variables is expected to explain how Islamic economics and macroeconomic conditions contribute to human development in Indonesia. This research model can be formulated as follows.

$$IPM_{it} = \alpha + \beta_1 ZIS_{it} + \beta_2 PDRB_{it} + \beta_3 Pov_{it} + \beta_4 Unemp_{it} + \beta_5 Gini_{it} + \beta_6 Gov_Health_{it} + \beta_7 Gov_Educ_{it} + \beta_8 Fin_MSME_{it} + e_{it}$$

Table 1. Operational Definition of Free and Bound Variables

Variable	Code Variable	Operational Definition	Data Source
Human Development Index	IPM	Composite indicators that measure human development achievements based on the dimensions of health, education, and decent living standards at the provincial level.	Central Statistics Agency (BPS)
Distribution of ZIS Funds	ZIS	The amount of Zakat, Infaq, and Alms funds distributed to the community to improve social and economic welfare.	National Amil Zakat Agency (BAZNAS)
ADHK's Gross Regional Domestic Product per Capita	GDP	Gross Regional Domestic Product Value per capita on a constant price basis that reflects the level of economic activity and average income of a community in a province.	Central Statistics Agency (BPS)
Percentage of Poor Population	POV	The percentage of the population below the poverty line in every province in Indonesia.	Central Statistics Agency (BPS)

Open Unemployment Rate	UNEMP	The percentage of the total workforce that is not working but is looking for work.	Central Statistics Agency (BPS)
Gini Ratio	GINI	An index that measures the level of inequality in the distribution of people's income in a region.	Central Statistics Agency (BPS)
Realization of the Regional Budget for Health	GOV_HEALTH	The amount of realization of the local government budget allocated for the health sector at the provincial level.	Ministry of Finance
Realization of APBD for Education	GOV_EDU	The amount of realization of the local government budget allocated for the education sector at the provincial level.	Ministry of Finance
ultra-micro financing (UMi)	FIN_MSME	The amount of financing distributed to micro enterprises (UMi) to support the development of small community businesses.	Financial Services Authority
Error Term	ε	Error components in the model that reflect the influence of other variables outside the research model.	—

Analysis Tools

This study uses panel data regression analysis to examine the influence of economic and social variables on Indonesia's HDI. The panel data analysis was chosen because the data used is a combination of time series data and cross-sectional data (cross-section), namely 34 provinces in Indonesia during the 2015–2024 period. This method allows for a more comprehensive analysis because it can capture data variations over time as well as differences in characteristics across regions.

Data processing and analysis are carried out using econometric statistical software. In panel data regression, there are three commonly used model approaches, namely the Common Effect Model (CEM), the Fixed Effect Model (FEM), and the Random Effect Model (REM). CEM assumes that there are no differences in specific characteristics between individuals or over time, so all data are treated equally. FEM assumes that there are differences in specific characteristics across individuals or regions that can affect the dependent variables and are controlled for through different intercepts. Meanwhile, REM assumes that differences in individual characteristics are random and part of the model's error component (Basuki, 2021).

The selection of the most suitable panel regression model was carried out through several stages of testing (Caraka & Yasin, 2017; Suminto & Huda, 2025). First, the Chow Test is used to determine whether the more appropriate model is CEM or FEM. Second, the Hausman Test is conducted to determine whether the more appropriate model is FEM or REM. Third, if necessary, a Lagrange Multiplier (LM) Test is carried out to choose between CEM and REM.

After the best model is obtained, statistical testing is performed to assess the influence of independent variables on the dependent variables. The tests include a t-test to determine the partial influence of each independent variable, an F test to determine the simultaneous influence of independent variables on HDI, and a determination coefficient (R^2) to measure the ability of independent variables to explain changes in HDI.

Through this stage of analysis, this research can provide an empirical picture of the economic and social factors that affect human development in Indonesia. The data used in this study are sourced from official institutions, including the Central Statistics Agency, the National Amil Zakat Agency, the Directorate General of Financial Balance of the Ministry of Finance, and the Financial Services Authority.

Hypothesis Preparation

The Effect of ZIS Fund Distribution on HDI

From an Islamic economic perspective, the welfare of the community is measured not only by economic growth but also by the equitable distribution of income and the fulfillment of basic human needs. Islamic social

instruments such as Zakat, Infaq, and Alms serve as a wealth redistribution mechanism that can improve the welfare of the community, especially people experiencing poverty (Lestari, 2023). This concept aligns with the goal of human development, which emphasizes improving the community's overall quality of life. According to the welfare theory in Islamic economics, based on Maqasid al-Shariah, the instrument of zakat serves to maintain the welfare of the community by fulfilling basic needs such as education, health, and proper consumption (Luthfiani & Yazid, 2025; Suardi, 2021). Optimal distribution of zakat funds can increase public access to social services, thereby contributing to improved human development. Research conducted by Ismail, Hasan, and Rahmad (2021) shows that effective zakat management can improve people's welfare, reduce poverty, and enhance the quality of life. Another study by Firmansyah, Hertikawati, and Aprilia (2024) found that zakat distribution has a positive effect on human development across several regions of Indonesia. Based on the theoretical foundation and the results of previous research, the hypotheses prepared are:

H1: The distribution of ZIS funds has a significant positive effect on HDI

The Effect of GDP per Capita on HDI

Economic development theory holds that increasing people's incomes can improve their quality of life by expanding access to education, health, and other basic needs (United Nations Development Program, 2020). This aligns with the theory of human development developed by Todaro & Smith (2014), which emphasizes that development should expand human ability to live healthier, more educated, and more prosperous lives. The most commonly used indicator of a region's economic welfare is Gross Domestic Product (GDP) per capita. The increase in GDP per capita reflects higher economic activity and community income, suggesting the potential to improve the quality of human development. Research by Hussain et al. (2020) and Arifah & Arifin (2022) shows that income levels are strongly correlated with increases in HDI across countries. Empirical research by Ranis, Steward, & Ramires (2000) and Elsitia & Syahzuni (2018) also showed that an increase in per capita income contributes to higher human development indicators. The hypotheses compiled are:

H2: GDP per capita has a significant positive effect on HDI

The Effect of Poverty on HDI

Poverty is one of the main factors that hinder human development (Abdullah & Wibowo, 2024). The high level of poverty causes people to have limitations in accessing education, health services, and other basic needs, which has an impact on the low quality of life. According to the United Nations Development Program's human development theory (2020), multidimensional poverty can hinder human development because societies lack the capacity to meet basic needs and improve the quality of life. Research by Pardita et al. (2024) and Pratasasiri et al. (2025) shows that poverty is negatively associated with human development due to limited access to basic services. The hypotheses proposed are:

H3: The percentage of poor people has a significant negative effect on HDI

The Effect of the Unemployment Rate on HDI

Unemployment is a condition in which a person in the labor force is not employed. A high unemployment rate can reduce people's incomes, thereby decreasing their ability to meet basic needs. According to the labor market theory described by Mankiw (2021), high unemployment can reduce people's welfare and hinder economic growth. This condition also contributes to a decline in the quality of human development (Hasbiullah et al., 2026). Empirical research by Rodlyah (2023) and Sartika, Bakhri, and Faza (2026) indicates that the unemployment rate is negatively associated with human development. The hypothesis proposed is

H4: Open unemployment rate has a significant negative effect on HDI

The Effect of Income Inequality on HDI

Income inequality reflects an imbalance in the distribution of income in society (Stiglitz, 1993). High levels of inequality can prevent some people from having adequate access to education, health, and other social services. According to the theory of income distribution in economic development, high inequality can hinder the improvement of people's welfare evenly (Priyono & Islamil, 2016). This aligns with the view of Sari et al. (2022), who state that economic inequality can hinder human development. The hypothesis proposed is

H5: Gini Ratio has a significant negative effect on HDI

The Effect of the Realization of the Health Sector Budget on HDI

Government spending on the health sector is an important investment in improving the quality of human resources (Maharda & Aulia, 2020). In Human Capital theory, health is seen as the main factor determining individual productivity and the quality of life in society. According to Becker (1975) and Wuttaphan (2017), human development emphasizes the improvement of human capabilities, including the ability to live a healthy life. Increasing the realization of the health sector APBD allows for increased access to health facilities, medical personnel, and preventive programs that have an impact on increasing life expectancy as the main component of HDI (Mellina, 2024). Recent empirical research shows that health spending has a positive and significant influence on HDI, as evidenced by studies in Riau and South Sumatra Provinces that found that health spending significantly increases HDI (Yulianti & Saputri, 2021; Haj & Bustaman, 2025). In addition, research in Indonesia shows that health spending positively contributes to increases in human development (Mongan, 2019; Maulidya, 2021). Based on the theory and empirical evidence, the hypothesis proposed is:

H6: The realization of the health sector APBD has a significant positive effect on HDI

The Effect of the Realization of the Education Sector Regional Budget on HDI

Education is a key factor in human development because it improves the quality of human resources. In the theory of Human Capital developed by Becker (1975), education is considered an investment that increases an individual's skills, productivity, and income. Increasing the realization of the education sector APBD will improve access to education, the quality of teaching staff, and educational facilities, ultimately improving education indicators such as the average length of school and the expected length of school in HDI (Hendrati & Perdana, 2021). Recent empirical research shows that education spending has a positive and significant effect on Indonesia's HDI (Fahmi, 2018). In addition, research by Abdillah & Primitasari (2023) in the Eastern Indonesia region found that education expenditure positively contributes to increasing HDI. Other studies show that education spending can significantly increase human development (Mongan, 2019; Sembiring, Hidayat, & Syafii, 2026). Based on the theory and previous research, the hypothesis proposed is:

H7: The realization of the education sector APBD has a significant positive effect on HDI

The Effect of Ultra Micro Financing (UMi) on HDI

Ultra-micro financing (UMi) is an important instrument in improving people's welfare through economic empowerment. In economic development theory, access to ultra-micro financing (UMi) allows people to increase business capacity, expand production, and increase income. According to Yunus (2007), ultra-microfinance (UMi) helps reduce poverty and improve welfare by empowering small communities economically. Increasing ultra-micro financing (UMi) will raise household incomes, thereby increasing people's ability to access education, health, and other basic needs (Wardani & Al Arif, 2021). This directly contributes to the increase in HDI. Recent empirical studies show that ultra-microfinance (UMi) and the development of MSMEs have a positive impact on human welfare and development by creating jobs and increasing people's incomes (Nurdany, 2016). In addition, the local economy-based development approach through MSMEs has been proven to strengthen the community's quality of life across various development indicators (Salsabila & Sekariningsih, 2022). Based on the theoretical foundation and the results of the research, the hypotheses proposed are:

H8: ultra-micro financing (UMi) has a significant positive effect on HDI.

RESULT AND DISCUSSION

RESULTS

The descriptive statistics provide a general overview of the characteristics and variation of the variables across 34 provinces in Indonesia during the 2015–2024 period, highlighting differences in human development, economic performance, social conditions, and government spending.

Table 3. Descriptive Statistic

Variable	Mean	Median	Maximum	Minimum	Std. Dev.	Obs
IPM	71.85	72.10	81.65	64.30	4.25	340
ZIS	3.75	3.20	12.50	0.80	2.95	340
PDRB	56.40	52.30	180.25	18.75	32.60	340
Pov	10.65	10.20	23.50	5.10	4.85	340
Unemp	5.75	5.40	9.80	2.90	1.85	340
Gini	0.385	0.380	0.445	0.320	0.028	340
Gov_Health	4.80	4.10	15.20	1.20	3.25	340
Gov_Edu	8.95	7.80	25.40	3.10	5.60	340
FIN_MSME	6.25	5.40	18.70	1.50	4.20	340

The descriptive statistics indicate substantial variation across provinces in Indonesia during the 2015–2024 period. The Human Development Index (IPM) has an average value of 71.85, ranging from 64.30 to 81.65, suggesting moderate to high human development with noticeable regional disparities. ZIS distribution shows considerable variability, with a mean of 3.75 and a wide range, reflecting uneven allocation of social funds. GRDP per capita (PDRB) exhibits high dispersion (mean 56.40; std. dev. 32.60), indicating significant income inequality across provinces. The poverty rate (Pov) averages 10.65%, with a broad range up to 23.50%, highlighting persistent disparities in welfare. Similarly, unemployment (Unemp) shows moderate variation, while the Gini ratio remains relatively stable, indicating moderate income inequality. Government spending on health and education, as well as MSME financing (FIN_MSME), display substantial variation, suggesting differing regional priorities and levels of financial inclusion.

Based on the test results in the table above, the cross-section Chi-square probability value is 0.0000, which is smaller than the significance level of 0.05. Therefore, H0 was rejected, and it can be concluded that FEM is more appropriate for using CEM to analyze the influence of independent variables on HDI across 34 provinces in Indonesia. The Hausman test is used to determine which model, FEM or REM, is best. The results of the Hausman test are shown in the following table.

Table 3. Hausman Test Results

Test Summary	Chi-Sq. Statistic	Chi-Sq. D.F.	Prob.
Cross-section random	9,986451	4	0,0407

Based on the test results in the table above, the probability value for the random cross-section is 0.0407, which is smaller than the significance level of 0.05. Therefore, H0 was rejected, and it can be concluded that FEM is the most appropriate model for this study.

The LM test is used to determine which model, CEM or REM, is best. This test is usually performed when the results of the Chow and Hausman tests are inconsistent. However, in this study, the results of the Chow and Hausman tests are consistent, both indicating that FEM is the most appropriate model. Therefore, the LM test does not need to be performed.

Based on all the model specification tests conducted, the most appropriate panel data regression model for this study is FEM. This model is used to estimate the influence of ZIS fund distribution, GDP per capita, poverty rate, unemployment rate, income inequality (Gini Ratio), realization of the health sector APBD, realization of the education sector APBD, and micro business financing (UMi) on HDI in 34 provinces in Indonesia during the 2015–2024 period. The regression results based on the suggested model are the FEM model described as follows:

Table 4. Panel Data Processing Results

Variable	Models		
	Common Effect	Fixed Effect	Random Effect
C (interse)	60.38209 ***	51.08588 ***	53.26600 ***
Prob	0.0000	0.0000	0.0000
ZIS	0.034498	0.081556 ***	0.083383 ***
Prob	0.1450	0.0000	0.0000
GDP	0.026815	0.000192 ***	0.000200 ***
Prob	0.1719	0.0000	0.0000
POV	0.075167	-0.847359 ***	-0.805126 ***
Prob	0.4209	0.0000	0.0000
Unemp	0.489572 ***	-1.240273 ***	-0.947156 ***
Prob	0.0001	0.0032	0.0004
Gini	12.25948	9.728140	7.624385
Prob	0.1321	0.5462	0.5526
Gov Health	0.000136	0.001698 ***	0.001760 ***
Prob	0.6482	0.0000	0.0000
Gov_Edu	0.000210	0.5231 ***	0.002145 ***
Prob	0.5231	0.0000	0.0000
FIN_MSME	0.000415	0.0834 ***	0.001322 ***
Prob	0.0834	0.0002	0.0003
R-squared	0.062307	0.992641	0.944896
Adj R-squared	0.045513	0.991579	0.943909
F-statistics	3.709985 ***	934.7744 ***	957.4099 ***
Prob	0.001384	0.0000	0.0000
Durbin-Watson stat	0.021336	0.339875	0.271393

Ket: * Significant at 10 percent
 ** Significant at 5 percent
 *** Significant at 1 percent

Based on the results of the estimation using the Fixed Effect model, a panel regression equation was obtained that describes the relationship between HDI and independent variables as follows:

$$\begin{aligned}
 IPM_{it} = & 51.08588 + 0.081556 ZIS_{it} + 0.000192PDRB_{it} - 0.847359 Pov_{it} - 1.240273Unemp_{it} \\
 & + 9.728140Gini_{it} + 0.001698Gov_Health_{it} + 0.5231Gov_Educ_{it} \\
 & + 0.0834Fin_MSME_{it} + e_{it}
 \end{aligned}$$

The regression equation of the resulting panel data shows the relationship between several economic variables and public policy on HDI. The constant value of 51.08588 shows that if all independent variables, such as ZIS distribution, GDP per capita, poverty rate, unemployment rate, income inequality, realization of the health budget, realization of the education budget, and ultra-micro financing (UMi), are assumed to be

constant or zero, then the HDI value is estimated at 51.08 points. This value describes the basic level of human development that can be achieved without altering the explanatory variables in the model.

The variable coefficient for ZIS fund distribution of 0.081556 indicates that a one-unit increase in the distribution of zakat, infaq, and alms funds will increase HDI by 0.081556 points, assuming other variables are constant. This shows that Islamic social finance instruments play a role in improving people's welfare by distributing income, providing social assistance, and empowering people experiencing poverty. The GDP per capita variable has a positive coefficient of 0.000192, indicating that a 1-point increase in regional income per capita will raise the HDI by 0.000192 points. Although the value is relatively small, these results show that regional economic growth continues to improve the community's quality of life by increasing access to education and health and improving the standard of living.

In contrast, the poverty level variable has a negative coefficient of -0.847359, indicating that a 1% increase in the poverty rate reduces the HDI by 0.847359 points. This shows that the higher the number of poor people, the lower people's ability to access education, health, and other basic needs, which are the main components of human development. The open unemployment rate variable also shows a negative coefficient of -1.240273, indicating that a 1% increase in the unemployment rate reduces the HDI by 1.240273 points. This condition shows that limited employment opportunities can reduce people's incomes and ultimately affect the quality of life.

The income inequality variable (Gini Ratio) has a positive coefficient of 9.728140, indicating that higher income inequality is positively correlated with the HDI in this model. However, interpreting this relationship requires caution, as high inequality in some regions can coexist with increased economic activity and development in others, so it does not always directly reflect equitable improvements in welfare.

Furthermore, the variable for the realization of the health sector APBD has a coefficient of 0.001698, indicating that every increase in local government spending on the health sector will increase HDI by 0.001698 points. This shows that increased government spending on the health sector improves the quality of public health services, including access to health facilities, medical personnel, and public health programs. The variable for the realization of the education budget has a positive coefficient of 0.5231, indicating that an increase in local government spending in the education sector will raise HDI by 0.5231 points. These results show that government investment in education plays an important role in improving the quality of human resources by increasing access to education, enhancing learning quality, and increasing school participation rates.

In addition, the micro business financing variable (UMi) has a positive coefficient of 0.0834, indicating that increasing access to ultra-micro financing (UMi) will raise HDI by 0.0834 points. This shows that financing programs for microenterprises can increase economic productivity, expand employment opportunities, and raise incomes, ultimately improving people's welfare and quality of life.

The Adjusted R-squared value in the Fixed Effect model of 0.991579 shows that 99.16 percent of the variation in HDI can be explained by independent variables in the model, namely the distribution of ZIS funds, GDP per capita, poverty rate, unemployment rate, Gini ratio, realization of the health sector APBD, realization of the education sector APBD, and ultra-micro financing (UMi). Meanwhile, the remaining 0.84 percent was attributed to variables outside the research model. Furthermore, the results of the F test showed an F-value of 934.7744 and a probability value of 0.0000, which is smaller than the 5 percent significance level ($\alpha = 0.05$). This shows that simultaneously all independent variables in the model have a significant influence on HDI. Thus, the regression model used in this study is considered feasible and able to explain the relationships among economic, social, and fiscal policy variables and human development in Indonesia.

DISCUSSION

Analysis of the Influence of ZIS Fund Disbursement on HDI

The estimated results indicate that the ZIS Fund has a positive and significant effect on HDI, with a coefficient of 0.08156 and a p-value of 0.0000 (< 0.05). These findings indicate that an increase in the

distribution of zakat, infaq, and alms funds can encourage improvements in the quality of human development by expanding access to basic needs such as education, health, and decent living standards. From an Islamic economic perspective, ZIS is an instrument of income redistribution that aims to reduce social inequality and improve the welfare of the poor and vulnerable. According to Ilmy (2019), zakat serves an economic function as a wealth distribution mechanism that can increase the consumption of people experiencing poverty, thereby encouraging a more equitable improvement in social welfare. This is in line with the theory of income redistribution in Islamic economics, which emphasizes the equitable distribution of resources to create social justice and improve the quality of life of the community (Adinugraha, Rahmawati, & Anas, 20204).

In addition, Zakat has a social development function that can support improvements in human development indicators. Within the framework of Islamic social finance, zakat can be used for various empowerment programs, such as educational assistance, health services, and productive business development for people experiencing poverty (Kuanova, 2023; Pujiyono et al., 2024). According to Chapra (2008), the Islamic economic system views zakat as an important instrument for reducing poverty and sustainably improving community welfare. Therefore, improving the effective management and distribution of ZIS funds has the potential to strengthen human development through improving the quality of human resources and reducing poverty rates.

The findings of this study are also in line with several previous empirical studies that show that Zakat has a positive impact on community welfare and human development. Research conducted by Gofur & Kasri (2025) shows that optimal zakat management can improve the welfare of people with low incomes through economic and social empowerment programs. Another study by Widodo (2019), Putri, and Herianingrum (2025) also shows that Islamic social financial instruments such as zakat and alms can contribute to reducing poverty and improving people's quality of life so that the results of this study strengthen the argument that optimizing the management of ZIS funds not only functions as an instrument of worship, but also as a socioeconomic policy that can increase human development in Indonesia.

Analysis of the Influence of GDP per Capita on HDI

The results of the estimation show that GDP per capita has a positive and significant effect on HDI with a coefficient of 0.000192 and a probability value of 0.0000 (< 0.05). These results show that an increase in the average income of people in an area can improve the quality of human development. Economically, increasing people's incomes enables them to meet basic needs, such as education, health, and a decent standard of living. This condition directly contributes to the increase in the main components of HDI, namely longevity and healthy living, knowledge, and a decent standard of living.

From an Islamic economic perspective, increasing people's income is not only a goal of economic growth but also a means to achieve holistic well-being (falah). According to Chapra (2008), economic development in Islam must be directed toward improving the welfare of the community through equitable resource distribution, increased productivity, and the fulfillment of basic human needs. With rising per capita income, people have a greater ability to meet the basic needs of a decent life and to improve the quality of human resources through better education and health care. This aligns with the concept of *maqāṣid al-sharī'ah*, which emphasizes the protection of the five main aspects of human life: religion, soul, intellect, descent, and property (Pradita & Darwanto, 2024).

In addition, within the framework of human development in Islam, increasing people's income must also be accompanied by equality and social justice (Puttitanun & Lerskullawat, 2025). Alwi and Aisyah (2023) explained that economic growth resulting from productive activities and equitable distribution of wealth can improve the welfare of the community at large. So that the increase in GDP per capita not only reflects regional economic growth but also shows an increase in people's ability to meet higher living standards (Ariwuni & Kartika, 2019). If a fair and inclusive distribution policy supports this growth, then increases in people's income will make a significant contribution to improving the quality of human development, as reflected in the increase in HDI (Hidayat & Woyanti, 2021).

Analysis of the Influence of Poverty on HDI

The results showed that poverty level had a negative and significant effect on HDI, with a coefficient of -0.84736 and a p-value of 0.0000 (< 0.05). This negative coefficient shows that an increase in the poverty rate will significantly reduce HDI achievement. This means that the higher the number of poor people in an area, the more limited people's ability to access basic needs such as education, health, and a decent standard of living. This condition directly affects three main dimensions of the HDI: health, education, and a decent standard of living. Therefore, the high level of poverty is one of the structural factors that can hinder improvements in the quality of human development in a region.

Theoretically, the relationship between poverty and human development can be explained through a human development approach that emphasizes the need to orient development towards improving the quality of human life. According to Sen (2000), poverty is not only related to low income but also reflects the deprivation of individuals' ability to obtain better education, health, and economic opportunities. This view is supported by Ul-Haq (1995), who argues that human development must place people at the center, so that poverty reduction is an important prerequisite for improving the quality of life of the community. In the context of economic development, Sachs (2015) also emphasized that high poverty can hinder investment in education and health, thereby slowing down the improvement of the quality of human resources.

From an Islamic economic perspective, poverty is seen as a social condition that must be minimized because it can hinder the achievement of community welfare (*falah*). According to Chapra (2008), the Islamic economic system emphasizes the equitable distribution of wealth and the provision of social security for vulnerable groups in society. Islamic social financial instruments, such as *zakat*, *infaq*, *alms*, and *waqf*, play an important role in reducing poverty and improving people's welfare. In addition, Gultom and Batubara (2026) explain that the distribution mechanism in Islamic economics aims to create social justice and improve the community's quality of life by fulfilling basic needs.

The findings of this study are also supported by various studies from Hutapea, Triyunita, & Amalia (2025); Prasteyoningrum, & Sukmawati (2018), who show that poverty has a negative relationship with human development. Research by Riyanto (2022) found that high poverty levels reduce people's quality of life by limiting access to education and health care. Other research by Alkire & Santos (2014) and Nasution et al. (2024) shows that multidimensional poverty is strongly correlated with low human development, because poor people tend to experience limitations across various aspects of life at once. Thus, poverty reduction efforts are an important strategy for improving the quality of human development and accelerating HDI growth in a region.

The Effect of the Unemployment Rate on HDI

The results showed that the open unemployment rate had a negative and significant effect on HDI, with a coefficient of -1.24027 and a p-value of 0.0032 (< 0.05). This negative coefficient shows that an increase in the unemployment rate will significantly reduce HDI achievement. This condition indicates that the higher the unemployment rate in a region, the lower the community's ability to obtain a stable income. As a result, people will experience limitations in meeting basic needs such as education, health services, and a decent standard of living. Therefore, the high unemployment rate can hinder improvements in human development by reducing employment opportunities and the community's economic productivity.

Theoretically, the relationship between unemployment and human development can be explained by economic development and labor-market theories, which hold that employment opportunities are important factors in improving people's welfare. According to Lewis (1954), in the dual-sector model, economic growth that is not accompanied by adequate labor absorption will lead to high unemployment, thereby affecting low public welfare. In addition, Todaro and Smith (2014) explained that unemployment is an important indicator of economic development because it is directly related to people's ability to earn income and improve their

quality of life. The high unemployment rate can reduce people's purchasing power and worsen socioeconomic conditions, ultimately affecting the quality of human development.

From an Islamic economic perspective, work is an important part of economic activities that not only aims to earn income, but also serves as a form of social responsibility in creating people's welfare. According to Chapra (2008), the Islamic economic system emphasizes the creation of wide job opportunities so that people can meet their basic needs and achieve prosperity (falah). In addition, Karimullah (2025) explained that high unemployment can exacerbate social inequality and hinder the achievement of economic justice. Therefore, economic policies from an Islamic perspective must be directed at increasing productivity and job creation through productive and sustainable economic activities.

The findings of this study are also in line with various empirical studies that show that the unemployment rate has a negative relationship with human development. Research by Rodlyah (2023) and Hasbiullah et al. (2026) shows that limited job opportunities can reduce people's quality of life by reducing household income and limiting access to education and health services. Another study by Sumayoto, Herawati, and Hapsari (2020) also showed that high unemployment is associated with increased multidimensional poverty, which ultimately affects low human development. Thus, efforts to reduce unemployment through job creation and increase economic productivity are important strategies in improving the quality of human development and increasing HDI achievement in a region.

Analysis of the Effect of Income Inequality on HDI

The estimated results showed that the Gini Ratio had a positive coefficient of 9.72814 but did not have a significant effect on HDI, as the probability value was 0.5462 (> 0.05). This indicates that income inequality has not had a significant influence on changes in human development achievement in this research model. Although, in theory, income inequality is often associated with a low quality of people's welfare, the results of this study show that these relationships are not always direct. There may be other factors that are more dominant in influencing human development, such as economic growth, poverty rates, unemployment, and government policies in the education and health sectors.

Theoretically, income inequality is often measured using the Gini Coefficient, which describes the distribution of income in an economy (Sari et al., 2022). According to Kuznets (2001), the Kuznets Curve hypothesis holds that income inequality can increase in the early stages of economic development before decreasing as people's welfare improves. In the context of human development, high inequality can limit access to quality education and health services for low-income groups. However, according to Sen (2000), human development is not only determined by the distribution of income but also by individuals' ability to access various economic and social opportunities (capabilities). Therefore, income inequality does not always directly determine the level of human development if the government can provide equitable public services to the community.

From the perspective of Islamic economics, income inequality is a social problem that must be minimized through an equitable system of wealth distribution. According to Chapra (2008), one of the main goals of the Islamic economic system is to achieve distributive justice so that wealth does not circulate solely to certain groups. Islamic economic instruments such as zakat, infaq, alms, and waqf serve as redistribution mechanisms that can reduce economic disparities and more evenly improve people's welfare. In addition, Kahf (2004) explained that the distribution system in Islamic economics aims to create social balance, preventing income inequality from causing extreme welfare disparities in society.

The findings of this study are also supported by several empirical studies, namely Lala et.al. (2023) and Karimullah (2025), which show that income inequality does not always have a significant effect on human development in the short term. Research by Ranis, Setwart, and Ramirez (2000) shows that the relationship between inequality and human development is highly dependent on the quality of public policies, especially in the education and health sectors. Another study by Yoetiara and Ferianto (2022) also found that human development is more influenced by access to basic services than by income distribution alone. Thus, the results

of this study show that income inequality is not yet a factor that directly determines HDI achievement, but remains an important issue that needs to be considered in long-term development policies.

Analysis of the Influence of Government Spending on Health on HDI

The estimated results indicate that government spending in the health sector has a positive and significant effect on HDI, with a coefficient of 0.001698 and a probability value of 0.0000 (< 0.05). This positive coefficient indicates that increasing the government's budget allocation to the health sector will improve human development outcomes. This can be explained by the fact that government spending on the health sector plays an important role in improving the quality of health services, expanding public access to health facilities, and improving the overall health status of the public. Improving health quality will ultimately increase people's life expectancy, which is one of the main indicators in HDI measurement.

Theoretically, the relationship between government spending on the health sector and human development can be explained through human capital theory, which states that investment in health is a form of investment in improving the quality of human resources. According to Becker (1975), investment in health and education will increase labor productivity and improve the community's quality of life. In addition, Todaro and Smith (2014) explained that government spending on the health sector plays a strategic role in economic development because it can improve the quality of human resources and strengthen the community's productive capacity. Thus, the larger the allocation of the health budget, the greater the potential to improve the community's quality of life, as reflected in the increase in HDI.

From an Islamic economic perspective, health is an important part of efforts to maintain human welfare (maslahah). According to Ilyas (2015), Adesty, Azzahra, and Aisyah (2025), in the concept of Maqāṣid al-Sharī'ah, preserving the soul (hifz al-nafs) is one of the main goals of sharia that must be realized through various social policies, including the provision of adequate health services. Therefore, the government's role in providing quality health services is part of the state's responsibility to ensure the community's welfare. Stuart (2025) and Gultom & Batubara (2026) also emphasized that the state has an important role in ensuring the equitable distribution of resources and the provision of public services that improve the overall well-being of the community.

The findings of this study are also supported by empirical studies showing that government spending on the health sector has a positive effect on human development. Research by Alkire & Santos (2014); Solfida, Nurhayati, & Hamzah (2015); Ghofara et.al. (2022) shows that investment in the health and education sectors is the main factor in improving the quality of human development. Other research by Ranis and Stewart (2000), Maharda and Aulia (2020), and Goldani and Momeni (2023) also found that increased access to health services significantly improves people's well-being and human development. So, increasing government spending on the health sector is one of the important strategies in improving the quality of human development and accelerating the increase in HDI in a region (Sasongko & Wibowo, 2022).

Analysis of the Influence of Government Spending on Education on HDI

The estimated results show that local government expenditure reflected in the APBD in the education sector has a positive and significant effect on HDI with a coefficient of 0.5231 and a probability value of 0.0000 (< 0.05). This positive coefficient indicates that an increase in local government budget allocation to the education sector can improve human development quality. This happens because education spending in the APBD helps increase public access to educational services, improve the quality of educational facilities and infrastructure, and enhance educators' competence. Such improvements in the quality of education will ultimately increase the average length of schooling and the expected length of schooling, which are important components of HDI measurement.

Theoretically, the relationship between local government spending on education and human development can be explained by Becker's (1975) theory of human capital. This theory emphasizes that investment in education is a means of improving the quality of human resources, thereby increasing productivity and community welfare. In addition, Todaro & Smith (2014) and Lantion, Musñgi, & Cabauatan

(2023) explained that government spending on the education sector is an important instrument in development policies aimed at improving people's quality of life and strengthening labor capacity. Thus, the larger the APBD allocation to the education sector, the greater its contribution to improving the quality of human development.

From an Islamic economic perspective, the provision of educational services is part of the state's responsibility in realizing community welfare. The concept of *Maqāṣid al-Sharī'ah*, as explained by Abu Ishaq al-Shatibi, emphasizes the importance of maintaining reason (*hifz al-'aql*), thereby obligating the state to ensure that people have access to proper and quality education. In addition, Chapra (2008) emphasized that the government in the Islamic economic system plays a strategic role in providing public services that improve the overall quality of life of the community. Therefore, the increase in APBD expenditure on the education sector not only contributes to human development but also reflects efforts to realize social justice and welfare from an Islamic economic perspective.

The findings of this study are also in line with various empirical studies, namely Riyansyah & Sujali (2013), Paramour (2020), and Eysi et al. (2025), which show that government spending in the education sector has a positive influence on human development. The same was also stated by Sasongko & Wibowo (2022), who noted that increasing investment in the education sector is a key factor in improving the quality of human resources. According to Ghifara et al. (2022), improving access to and the quality of education can raise people's living standards and significantly increase HDI.

The Effect of Micro Business Financing on HDI

The estimated results indicate that ultra-micro financing (UMi) for MSMEs has a positive and significant effect on HDI, with a coefficient of 0.0834 and a p-value of 0.0002 (< 0.05). This positive coefficient indicates that greater access to financing for ultra-micro business actors can improve the quality of human development. This is because ultra-micro financing (UMi) provides opportunities for small business actors to obtain business capital, increase production capacity, and expand economic activities. The increase in business activity will raise people's incomes, ultimately improving households' ability to meet the needs of education, health, and a better standard of living, which are the main components of HDI.

Theoretically, the relationship between access to ultra-micro financing (UMi) and human development can be explained through the theory of financial inclusion, which states that access to financial services is an important factor in improving people's welfare. According to Muhammad Yunus, providing access to ultra-microfinance (UMi) for low-income communities can increase economic productivity and help reduce poverty. In addition, Stiglitz (1993) explained that limited access to ultra-microfinance (UMi) is one of the main obstacles to small businesses developing their businesses. Therefore, ultra-micro financing programs provided by the government or financial institutions have a strategic role in encouraging small business growth and improving people's welfare.

From an Islamic economic perspective, ultra-micro financing (UMi) is part of efforts to realize economic justice and community empowerment. According to Chapra (2008), the Islamic economic system encourages the development of the real sector through productive business activities that can improve the welfare of the community at large. In addition, Siddiqi (2004) explained that fair and inclusive access to finance is crucial for empowering economically disadvantaged groups and reducing economic disparities in society. Therefore, ultra-micro financing (UMi) can be an important instrument in increasing the productivity of small businesses while strengthening community-based economic development.

The findings of this study are also in line with Wardani & Al Arif (2021), who show that access to ultra-micro financing (UMi) has a positive impact on community welfare and human development. Research by Nudany (2016) shows that the ultra-micro financing program (UMi) can increase the capacity of small businesses and improve households' socioeconomic conditions. Another study by Salsabila & Sekariningsih (2022) also found that financial inclusion has an important contribution to increasing economic growth and community welfare. Thus, increasing ultra-micro financing (UMi) is an important strategy for encouraging community economic empowerment and advancing human development, as reflected in higher HDI.

CONCLUSION AND RECOMMENDATION

This study analyzes the influence of various economic, social, and fiscal policy factors on HDI in Indonesia using a panel data regression model with a Fixed-Effects Model (FEM). The results of the estimation show that the variables of the distribution of zakat, infaq, and alms (ZIS), GDP per capita, the realization of the health sector APBD, the realization of the education sector APBD, and ultra-micro financing (UMi) for micro enterprises have a positive and significant influence on HDI. These findings show that increasing economic activity, distributing Islamic social funds, government investment in education and health, and ultra-micro financing (UMi) support can improve the quality of human development by increasing access to basic services, boosting community income, and enhancing economic productivity.

In contrast, poverty rates and open unemployment rates have been shown to have a negative and significant influence on HDI. This shows that the increasing number of poor people and high unemployment rates can reduce the quality of human development by limiting public access to education, health services, and a decent standard of living. Meanwhile, the income inequality variable, measured by the Gini Ratio, did not show a significant influence on HDI in this study's model. This condition shows that income inequality has not directly affected short-term human development achievements, or that other factors are more dominant in determining Indonesia's level of human development.

Based on the study's results, the government needs to strengthen development policies that focus on improving the quality of human resources by optimizing spending in the education and health sectors. Increasing budget allocation and effectiveness in these two sectors is important to expand public access to quality education and adequate health services, thereby encouraging sustainable improvement in human development outcomes.

The government also needs to increase efforts to alleviate poverty and reduce the unemployment rate through inclusive economic policies, such as developing productive business sectors, creating jobs, and improving labor skills. In addition, strengthening the ultra-micro financing program (UMi) for micro and small business actors must continue to be carried out to increase access to capital for low-income communities, thereby boosting economic productivity and community welfare.

On the other hand, the management of Islamic social funds, such as zakat, infaq, and alms, also needs to be optimized to play a greater role in supporting poverty alleviation programs and community economic empowerment. For the next researcher, it is recommended to add other variables related to human development, such as the quality of education, the level of financial literacy, the Islamic Economic Development Index, and institutional variables, to provide a more comprehensive picture of the factors that affect human development.

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