ISLAMIC ECONOMIC INDICATOR AND POVERTY PROBLEM: CASE STUDY IN INDONESIA

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ABSTRACT

Poverty has a close relationship with index quality of life, forming a vicious circle of poverty regarding material and non-material aspects. In addition, macroeconomic factors cause and are caused by poverty, such as investment and inflation. This study tries to see how the interaction between macro and religious indicators exists in Indonesia and the problem of poverty in provinces in Indonesia. The research method used the panel vector error correction model (PVECM) in the long-term and short-term interaction, which showed that in long-term indicator I-HDI, investment and inflation don't affect the Indonesian poverty rate. The rate of independent indicators can't be a strategy for alleviating poverty in Indonesia. Unlike the long term, in the short term I-HDI, investment and inflation negatively impacted Indonesia's poverty alleviation.

KEYWORDS: Islamic Human Development Index (I-HDI), Investment, Inflation, Poverty

INTRODUCTION

Poverty is defined as the inability of people to fulfill basic needs, and poverty has become a global and fundamental problem in all countries, including Indonesia, where income inequality in education is the most significant factor behind the poverty rate in Indonesia. The existence of fiscal policy reforms evidences the Indonesian government's commitment to overcoming poverty through accelerating human resource development in the health sector and social protection of education (Aziz, Rochaida, & Warsilan, 2016; Setiono, 2014). The problem of poverty that is too high hampers the effectiveness of the country's economy and becomes a new source of macro problems in the country. The issue of poverty faced by the government is still high, originating from internal and external sectors.
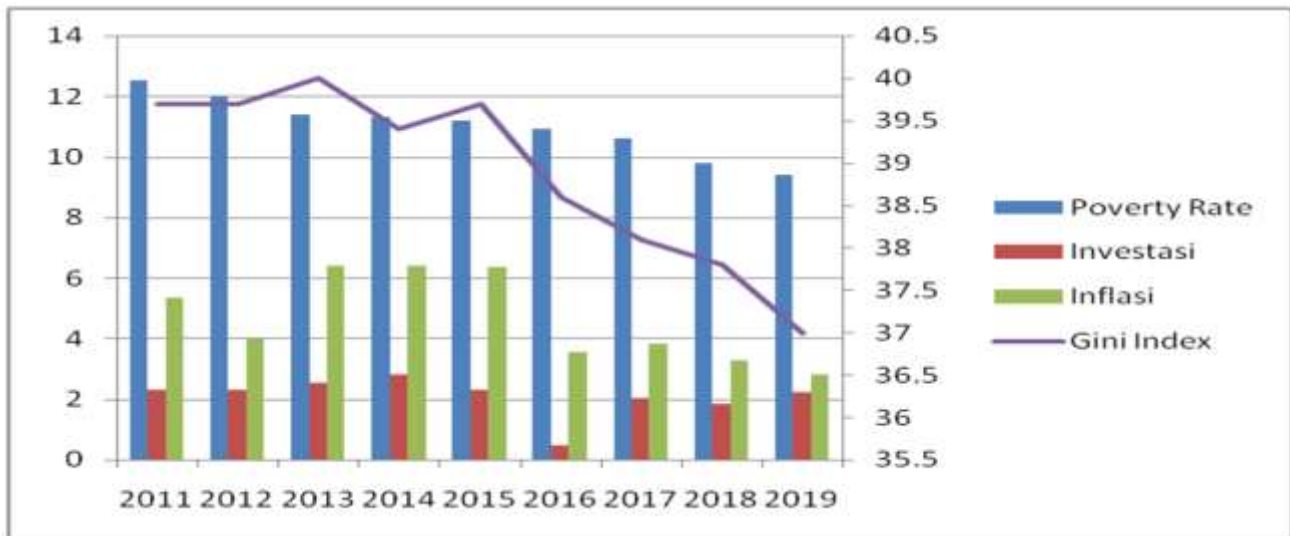
Figure 1. Poverty rate, Investation, Inflation and Gini Index in Indonesia 2011-2019.

Figure 1 above illustrates Indonesia's poverty, investment, inflation, and Gini index. From the figure, it can be seen that Indonesia's poverty is relatively high when compared to poverty in ASEAN countries. The trend of decreasing poverty levels has not significantly hampered the performance of several macro indicators in Indonesia. The investment above illustrates the condition of FDI in Indonesia in a vulnerable period of 2011 – 2019 when investment in Indonesia tends to experience delays. For investors, the high poverty in a country can create instability in economic development and increase the risk of investment assets. Poverty and inflation become a package of problems that will affect each other. Increasing poverty will have a great potential to encourage inflation problems in a country. Income levels influence inflation, and people's purchasing power for a product will also trigger inflation problems. Poverty is the inability of society to meet the purchasing power of personal needs, thus starting some production outputs to be not well absorbed in the market. High inflation will increase the cost of individual consumption expenditures and allow the percentage of poverty to increase if individuals cannot keep up with the increase in necessities.

The poverty rate in Indonesia experienced a downward trend until 2019. The problem of the Covid-19 pandemic was the driving force for Indonesia's poverty rate increase in 2020. The phenomenon of the Covid-19 pandemic has caused most of the workforce in Indonesia to lose their jobs and reduce their income. The trend of decreasing the poverty rate until 2019 is based on the standard poverty line, which, if equivalent to international standards, is not far from the extreme poverty line. Meanwhile, the World Bank groups poverty into five parts: the extreme, moderately poor, vulnerable, secure, and middle class. The World Bank also notes that the poverty rate in Indonesia is still far behind compared to neighboring countries such as Thailand and Malaysia. The rate of poverty reduction in Indonesia has also decreased by 1.9% from 2002-2017 compared to previous years.

The poverty rate in Indonesia is driven by a low HDI, low and unequal job availability, low and unequal income levels, and open unemployment (Annur, n.d.; Rini & Sugiharti, 2016; Zuhdiyaty & Kaluge, 2017). HDI is a proxy measurement of human development where ratio forms education rate, healthy rate, and individual income. HDI plays an active role in encouraging national development through individual quality. The higher the HDI index of a country, the process of economic development will be evenly distributed so that the problem of poverty can be unraveled. The problem of employment in Indonesia is also uneven, and most companies focus on operations in developed or urban areas that have access to high mobility. Employment problems can be overcome by increasing investment activity in labor-intensive companies with more significant labor absorption. Tobondo et al. (2021) and Topalli et al. (2021) state that the PMA and PMDN investment sectors can reduce poverty in a country by increasing industrial productivity.

Inequality and inequality in people's incomes in Indonesia cause inflation problems to the prices of people's basic needs. Fluctuating inflation rates will have an impact on the national economy. Bank Indonesia will respond to fluctuations in inflation as the monetary authority through interest rates and policy expansion deflation. The increase in inflation will push the prices of basic needs to increase, and this will certainly reduce the ability of the people to meet their needs if it is not balanced with increased income. Wahyuningsih et al. (2020) explained that inflation is one of the many factors causing poverty in the unemployment sector.

Ragnar Nurske has also explained the causes of poverty above in the Vicious Cycle of Poverty, where the problem of poverty throughout will not end because all elements of economic activity are interconnected. The issue of poverty has become a cycle in the life of all people. Various policies implemented by all countries have not been able to end the problem of poverty in their country. Even the efforts of the United Nations through the Millennium Development Goals program have also not achieved the poverty alleviation target in 2015.

The core of sustainability problems in Indonesia, no poverty, is the main backbone of the success of the global SDGs program. It is stated in the 2005-2025 RPJPN that the problem of poverty is not only limited to the level of individual income but also involves the possibility of people becoming poor as well as inequality in the fulfillment of fundamental rights and obligations of the community. Religious indicators will play a significant role in government decisions regarding people's welfare. For Indonesia, with the most significant Muslim majority, Islamic elements play a major role in social life. Islam also discusses poverty as a big problem in achieving the benefit of religious communities. The issue of poverty problems in Islamic principles is more complex and approaches the actual conditions in society. Islam also shows a significant commitment to fighting poverty problems. Looking back at the explanation in Figure 1 above, it is clear that the poverty rate in Indonesia has a declining trend. Still, the income inequality rate is getting bigger between individuals at the top and bottom levels. Islam, which upholds the equality of the Ummah, views that differences in income mainly trigger poverty.

The use of Islamic variables has not been widely studied by previous researchers, especially in overcoming the problem of rampant poverty, which has become a fundamental problem for Islamic countries. The teachings of Islam strongly recommend all its people to improve their welfare and not depend on others, following Islamic teachings such as Rahmatan Lil 'Alamin, which encourages all of its people to work hard with their own hands so that they can meet every need of their life (Setiawan & Hasanah, 2016).

2. LITERATURE REVIEW

Investment is defined as a form of investment to obtain greater profits in the future. Investment activities in the industrial sector can increase economic productivity and employment (Pateda, Masinambouw, & Rotinsulu, 2017). Investment (capital), poverty, and economic growth have become inseparable. The increase in economic growth always encourages the process of national economic development, which is characterized by reduced poverty rates, increased community productivity, and increased capital, which has implications for increasing goods and services that can meet people's demands so that this can reduce backwardness and improve people's living standards, and so on. Vliet and Wang (2015) and Israel (2014) have previously investigated research on the relationship between investment and poverty. They researched the relationship between investment and poverty, which shows that investment will affect poverty levels due to the relationship between poverty and public spending. Both studies contradict the findings of Gohou and Soumare (2012) and Ogunniyi and Igberi (2014), which conclude that the investment rate doesn't impact poverty problems. From the explanation above hypothesis in this study, Ha: Investment affects the poverty rate in Indonesia.

Inflation is defined as a condition of increasing general prices and taking place continuously. The increase in inflation is caused by a mismatch of production output with people's income (Salim, Fadila, & Purnamasari, 2021). Fluctuations in inflation will directly impact the purchasing style and public consumption of manufactured goods and will also cause changes in the profitability of the industrial sector. In inflationary conditions, the economic cycle will be sluggish and make some people experience a decrease in their ability to fulfill their needs. With this, the poverty rate may increase. Various empirical studies have been carried out by other researchers regarding the relationship between inflation and poverty in a country. Tanjung et al. (2019) stated the inflation condition could increase poverty cases in Indonesia. Still, these results do not line with the study by Junaidin and Muniarty (2020) that stated the relationship between inflation and poverty and found that in a case study in Bima City, the inflation rate did not impact the poverty rate. Based on the explanation of empirical and theoretical results, the hypothesis in this study is Ha: Inflation impacts poverty levels in Indonesia.

Human Development Index is a proxy measurement of human quality based on the perspective of Islamic teachings, and the IHDI concept describes the welfare condition of Muslims in sufficient the natural consumption as a human (maslahah) to achieve happiness and welfare. Measurement of HDI from an Islamic perspective (I-HDI) uses the Maqasidh Syariah dimension, which has five

measurement dimensions, namely the Ad-dien Index (Religious Dimension), An-nafs Index (long and healthy life dimension), Al-'aql Index (knowledge dimension), the An-nasl Index (Dimensions of kinship and descent) and the Al-maal Index (Dimensions of income). Rezaa (2018) examined the relation between IHDI and poverty in the Bireuen district and found the dimension Ad-dien index and the Al-'aql index impact the poverty rate in the Bireuen district. This study hypothesizes that the Ha: Islamic Human Development Index (I-HDI) impacts poverty in Indonesia.

3. RESEARCH METHODOLOGY

The latest in this research is the addition of religious indicators in alleviating poverty problems in Indonesia, namely the Islamic Human Development Index (I-HDI). The choice of religious indicators is based on the fact that most Indonesians are Muslim and poverty cases are still high in Islamic countries. This study uses two macroeconomic indicators, namely inflation and investment, and religious indicators, namely IHDI, as independent variables. Furthermore, poverty is the subject of discussion by looking at the number of poor people in 30 provinces in Indonesia published by the Central Statistics Agency. The analytical method used is the panel vector error correction model with the object of observing as many as 30 provinces in the 2013-2019 vulnerability. The panel vector error correction model method is a quantitative data analysis technique in the form of vector autoregression, in which VECM is limited. VAR does have cointegration between variables' research. VAR and VECM as methods estimate the effect between dependent and independent variables in the short-term and long-term. VECM is a dynamic panel estimation method without using a structural model and adjusting to actual economic conditions.

$$Povit_{it} = \alpha_{10} + \alpha_{11}Povit_{it-1} + \alpha_{12}IHDI_{it-1} + \alpha_{13}Investment_{it-1} + \alpha_{14}Inflation_{it-1} + \varepsilon_{it}\ldots\ldots\ldots(1)$$

$$IHDI_{it} = \alpha_{10} + \alpha_{11}IHDI_{it-1} + \alpha_{12}Povit_{it-1} + \alpha_{13}Investment_{it-1} + \alpha_{14}Inflation_{it-1} + \varepsilon_{it}\ldots\ldots\ldots(2)$$

$$Investment_{it} = \alpha_{10} + \alpha_{11}Investment_{it-1} + \alpha_{12}Povit_{it-1} + \alpha_{13}IHDI_{it-1} + \alpha_{14}Inflation_{it-1} + \varepsilon_{it}\ldots\ldots\ldots(3)$$

$$Inflation_{it} = \alpha_{10} + \alpha_{11}Inflation_{it-1} + \alpha_{12}Povit_{it-1} + \alpha_{13}IHDI_{it-1} + \alpha_{14}Investment_{it-1} + \varepsilon_{it}\ldots\ldots\ldots(4)$$

Povit as the number of poor people in the province on Indonesia 2013-2019, IHDIit as Islamic Human Development Index for area province on Indonesia 2013-2019, Invit as Investment area province on Indonesia 2013-2019, Infit as Inflation area province on Indonesia 2013-2019.

4. RESULT AND DISCUSSION

4.1. Result

The first step in the PVECM test is a stationarity test. In contrast, seeing the condition of the presence or absence of a unit root in each research data, unit root problems are often found in studies containing

time series data. The data condition is stationary if the average value and variance of the data are constant, with a value below the significant degree of a score of 0.05. Table 1 will contain the results of the stationarity test of the data.

Table 1. Stationary Test Result.

Variable	level test		Dec.	first difference test		Dec.
	Levin, Lin & Chut	PP-Fisher		Levin, Lin & Chut	P.P.-Fisher	
Poverty	0.9996	1.000	Non-stationary	0.000	0.000	Stationary
IHDI	0.000	0.000	Stationary	0.000	0.000	Stationary
Investment	0.000	0.0386	Stationary	0.000	0.000	Stationary
Inflation	0.000	0.0062	Stationary	0.000	0.000	Stationary

Source: E-views 9 output

In table 1 above, it can be seen that at the level test, there are variables that have unit roots, or in a non-stationary condition, the condition of the probability score above a significant degree of 0.05 concludes that there is a unit root in poverty data. The results at the level are inversely proportional to the first difference test, which shows that all data is stationary with a probability score of 0.000 below the significant score, so it is concluded that all data at the first difference level are in a stationary condition.

Table 2. Lag Optimum Test Result.

Lag	LogL	LR	FPE	AIC	SC	HQ
1	-198.909	NA	0.000463	3.673658	4.051391	3.827013
2	-151.5121	88.31206*	.000271*	3.136959*	3.892426*	3.443669*
3	-138.064	24.13763	0.000284	3.180582	4.313781	3.640647

Source: E-views 9 output
* indicates lag order selected by the criterion

Optimum lag testing on the VAR method is intended to see the condition of the relationship between variables in the short term, determining the optimum lag value based on five criteria, namely L.R., FPE, AIC, SC, and H.Q. The most stars indicate the optimum lag (*) on each lag criterion, in this study, lag 2 is the optimum lag of the VAR model.

Table 3. Cointegration Test Result.

| Hypothesized | Eigenvalue | Trace | 0.05 | Prob.** |
No. of C.E. (s)		Statistic	Critical Value	
None *	0.560149	165.4397	47.85613	0.0000
At most 1 *	0.259584	69.34551	29.79707	0.0000
At most 2 *	0.219598	34.18193	15.49471	0.0000
At most, 3 *	0.043245	5.172282	3.841466	0.0229

Source: E-views 9 output

The trace test indicates four cointegrating eqn(s) at the 0.05 level

* denotes rejection of the hypothesis at the 0.05 level

**MacKinnon-Haug-Michelis (1999) p-values

The cointegration test is a further test to detect the existence of a variable balance relationship in the long term, decision making whether there is a cointegration problem in the data uses a significance level of a score of 0.05. If the probability value is above 0.05, there is no cointegration relationship between variables, while the probability value below 0.05 indicates a cointegration relationship between variables. The results of table 3 above show that there is a correlation relationship between research variables, so the PVECM model is more appropriate to use than PVAR. The research score probability value is 0.0000, below the significant score of 0.05.

Table 4. PVECM Test Result.

Cointegrating Eq:	CointEq1			
D(Poverty(-1))	1			
D(IHDI(-1))	1.034988			
	(-1.49184)			
	[0.69377]			
D(Investment(-1))	-1.731932			
	(-0.90114)			
	[-1.92194]			
D(Inflation(-1))	3.564475			

	(-0.26619)			
	[13.3906]			
C	1.289144			
Error Correction:	D(Poverty,2)	D(IHDI,2)	D(Investment,2)	D(Inflation,2)
CointEq1	0.014105	-0.01461	-0.001246	-0.576434
	(-0.01158)	(-0.00688)	(-0.01785)	(-0.0381)
	[1.21788]	[-2.12258]	[-0.06977]	[-15.1277]
D(Poverty(-1),2)	-0.360213	0.033152	0.258564	0.360066
	(-0.07914)	(-0.04703)	(-0.12201)	(-0.2604)
	[-4.55132]	[0.70491]	[2.11920]	[1.38277]
D(Poverty(-2),2)	-0.182311	0.04846	0.151758	0.206953
	(-0.06266)	(-0.03723)	(-0.09659)	(-0.20615)
	[-2.90964]	[1.30154]	[1.57111]	[1.00389]
D(IHDI(-1),2)	-0.094341	0.013192	0.11536	0.066572
	(-0.06002)	(-0.03566)	(-0.09252)	(-0.19746)
	[-1.57194]	[0.36991]	[1.24686]	[0.33715]
D(IHDI(-2),2)	-0.019361	-0.00222	0.000283	-0.065572
	(-0.02391)	(-0.01421)	(-0.03686)	(-0.07867)
	[-0.80975]	[-0.15589]	[0.00769]	[-0.83354]
D(Investment(-1),2)	0.024797	-0.00793	-1.001166	-0.76191
	(-0.06071)	(-0.03608)	(-0.09359)	(-0.19975)
	[0.40843]	[-0.21982]	[-10.6969]	[-3.81434]
D(Investment(-2),2)	-0.03526	0.027607	-0.498006	-0.610218
	(-0.0532)	(-0.03161)	(-0.08201)	(-0.17502)

	[-0.66282]	[0.87331]	[-6.07258]	[-3.48648]
D(Inflation(-1),2)	0.051697	0.021276	-0.020799	0.432448
	(-0.02742)	(-0.01629)	(-0.04227)	(-0.09022)
	[1.88531]	[1.30574]	[-0.49202]	[4.79339]
D(Inflation(-2),2)	0.031245	-0.01059	-0.014747	0.113432
	(-0.01277)	(-0.00759)	(-0.01968)	(-0.04201)
	[2.44719]	[-1.39581]	[-0.74922]	[2.70031]
C	-0.010594	0.109718	0.049959	-0.588767
	(-0.04536)	(-0.02695)	(-0.06993)	(-0.14924)
	[-0.23355]	[4.07047]	[0.71444]	[-3.94509]
R-squared	0.359869	0.445354	0.638671	0.903715
Adj. R-squared	0.285048	0.380526	0.596437	0.892461
Sum sq. resides	6.221245	2.196799	14.78512	67.34387
S.E. equation	0.284245	0.168908	0.438195	0.935198
F-statistic	4.809764	6.869712	15.12245	80.30115
Log-likelihood	-8.697348	36.58479	-46.35316	-112.3075
Akaike AIC	0.429824	-0.61115	1.295475	2.811666
Schwarz SC	0.713262	-0.32771	1.578913	3.095104
Mean dependent	0.011494	0.13908	-0.030575	-0.118046
S.D. dependent	0.336167	0.214604	0.689781	2.851811

Source: E-views 9 output

Table 4 above divides the long-term and short-term test results into two tables. Namely, the upper part is the interpretation of the long-term results, while the lower part is the interpretation of the short-term results. In the long term, all independent variables do not affect the dependent, meaning that IHDI, investment, and inflation do not affect the poverty level in Indonesia in the long term. In contrast to the long term, in the short term, investment and IHDI variables have a negative effect on the poverty rate in Indonesia, while inflation has a significant positive effect on poverty in Indonesia. In the long

term, the relationship between variables is insignificant because the probability value of C(1) is 0.2242 above a significant score of 0.05. At the same time, in the Wald test, it is seen that the relationship between variables is significant in the short term because the probability score is 0.049, below a significant score of 0.05.

4.2. Discussion

Investment is an indicator of the real sector that impacts poverty in Indonesia. This negative relationship indicates that an investment increase can reduce Indonesia's poverty. Increasing activity in the investment sector will directly affect national income, especially productivity. In labor-intensive companies, the increase in investment can increase the absorption of labor in Indonesia so that the standard of living and the ability to fulfill life in the community increases. These findings align with the neoclassical theory of investment, which reveals that increased investment can drive economic growth and development to encourage the growth of the average capital stock of the workforce so that the quality of life will increase. These findings also strengthen the previous Prasetyawan et al. (2017) analysis, which found a negative relation between investment, labor, and poverty. Condition increase of investment can reduce case problem of poverty in the region.

This research is also in line with the study conducted by Nata & Suyana (2020), which found negative causality between investment and poverty and also reinforces Todaro's statement that "investment has a vital role in the rotation of the economy, especially on capital portion whereas this conditions also improve the production of good and service, job expansion and the end of this point investment be one of the channels for government to get more income."

The Islamic Human Development Index is a proxy for human development and a proxy indicator for religion in this study. Based on the PVECM test above, I-HDI has a negative and significant effect on poverty in Indonesia in the short term. The I-HDI measurement is based on five aspects of Maqasidh Syariah, which in this study uses the number of pilgrims as an Ad-dien proxy. The majority of previous researchers used crime as an Ad-dien proxy. If other studies that use the Crime Rate proxy assume a person's level of righteousness is based on a person's bad or not wrong, then in this study, the authors measure based on a person's good or bad by using the Number of Pilgrims. This proxy was adopted from Anto (2009), which provides several options for measuring the ad-dien dimension, including the Number of Mosque Visitors per Day, Number of Muslims Fasting per Day, Actual Zakat, and Number of Pilgrims. This research uses a proxy for the Number of Hajj Pilgrims because the data is easier to obtain and measure.

A negative relationship between IHDI and poverty indicates that the more obedient people are to Islamic law, the fewer cases of poverty in Indonesia. These findings align with Q.S. Al-Ankabut: 17 and Q.S. Adz-Dzariyat: 19.

"So, seek sustenance with Allah, then worship and be grateful to Allah. Only to Allah will you be returned."
"And in their property, there is a right for the poor who ask, and the poor who do not ask."

From the explanation of the meaning of the verse above, it is implied that Islam strongly opposes the behavior of lazy people, as the teachings of Islam are indeed very concerned about the welfare of the people, as stated in the "zakat" recommendation in zakat, we are required to pay attention to each other's conditions and build a sense of responsibility for fellow people. In zakat, we are taught to have mutual concern among people, especially the poor, so that the welfare of Muslims is evenly distributed. The concept of human development combines social and economic dimensions in measuring the quality of society in a country. This finding is in line with the findings of Amaludin et al. (2018), explaining that increasing government efforts through 5 indicators of human development plays an essential role in improving the quality of society globally and reducing poverty problems. . The quality of the community following the demands of the labor market will increase the absorption of local workers, especially in crucial work sectors that have been using foreign workers. Jamaliah and Elyta (2022) revealed a negative relationship between HDI and poverty; HDI is the key to success in achieving targets and development. The HDI indicator is a primary indicator that will determine the level of success of a region's development, the low quality of human development also has the opportunity to create new problems in both the social and economic sectors.

Inflation as an indicator of the real sector also determines the condition of poverty in Indonesia. Based on the results of PVECM in the short term, inflation has a significant positive effect on poverty in Indonesia. Inflation is defined as a condition of rising prices of goods as a whole and takes place continuously. The problem of inflation will always be related to people's purchasing power, where the people's purchasing power will be formed if the income cycle is stable. The poverty rate will increase if the prevailing inflation rate also increases. An increase in prices without being offset by an increase in income will reduce the individual's ability to meet needs, as it is known that poverty is defined as the inability of individuals to fulfill basic needs as human beings. High inflation rates in a country will exacerbate existing poverty cases because, in this condition, it is challenging for people with lower middle incomes to fulfill their basic natural needs as human beings. These findings are in line with the findings of Faisal and Ichsan (2022), observing how the relationship between inflation and poverty rates in Indonesia and found that short-term inflation positively affects poverty in Indonesia. Phutong (2011) and Massulianti (2015) also reveal a positive relationship between inflation and poverty. Inflation problems can trigger an increase in poverty cases in a country because these two indicators will depend on their income.

5. CONCLUSION

Research on the effect of investment, inflation, and I-HDI on the level of poverty in Indonesia, based on the explanation above, it can be concluded that in the long term, all independent variables of the study do not affect the problem of poverty in Indonesia. The findings in the long term are inversely

proportional to the findings in the short term, where all independent variables have a significant effect on poverty. IHDI has a significant negative effect on poverty in Indonesia, meaning that the higher the quality of Islamic human development will be able to suppress poverty in Indonesia. Investment has a significant negative effect on poverty in Indonesia. An increase in investor interest in the investment cycle in Indonesia will increase opportunities for using labor in this way. Of course, people's income will increase and increase individual ability to meet needs. Besides that, there is an investment cycle that will encourage the government to improve the quality of human resources to adapt to the needs of the labor market. Inflation has a significant positive effect on poverty in Indonesia, meaning that the problem of increasing inflation will increase poverty cases because inflation problems will arise if there is an imbalance in people's purchasing power, where this purchasing power can measure people's ability to meet the needs of life.

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