
**The Influence of Sharia Financial Inclusion and Unemployment Rate on
Income Inequality in Indonesia**

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doi.org/10.51505/IJEBMR.2024.8612

URL: <https://doi.org/10.51505/IJEBMR.2024.8612>

Received: May 30, 2024

Accepted: Jun 03, 2024

Online Published: Jun 13, 2024

Abstract

Income inequality can hamper economic growth if it gradually reaches a high point. This research aims to analyze the influence of sharia financial inclusion and unemployment rates on income inequality in Indonesia. The independent variables were measured using data on sharia bank office networks, third party funds, and the open unemployment rate. For the dependent variable, Gini index data obtained from the Financial Services Authority and the Central Statistics Agency is used. The research was conducted from 2016 to 2023 and involved 33 provinces in Indonesia. The method used is quantitative research with panel data regression analysis, processing data using Eviews 13. This research concludes that the sharia bank office network, third party funds, and the unemployment rate together have a significant influence on income inequality. In contrast, this study finds that bank office networks and third party funds have an influence on income inequality, while the unemployment rate does not affect income inequality. It can be said that sharia financial inclusion, which is measured using sharia bank office network data and third party funds, has an effect on reducing income inequality in Indonesia, this is because sharia financial inclusion can provide financial access and services to low-income people so that they can build assets and increase their income. wealth by setting up your own business and creating jobs.

Keywords: Income Inequality, Sharia Bank Office Network, Third Party Funds, Unemployment Rate

1. Introduction

Inequality is a worse problem than poverty. Inequality will hamper economic growth if it gradually reaches a high point, causing the affected countries to be unable to get out of that position and become trapped in the middle income group. Sustainable Development Goals (SDGs) is a UN sustainable development program in 2015 and is expected to be achieved by 2030. There are 17 SDGs goals, one of which is reducing inequality, by reducing national and global disparities. An integrated strategy is needed to resolve the income gap which has now developed into a global problem (Maulidina et al., 2023) . Income inequality needs to be

addressed so that society feels fair and prosperous, economic growth increases, and poverty and unemployment are reduced.

In this case, Islam is concerned with income inequality. Economic and social life is influenced by income inequality. Therefore, it is the obligation of every Muslim to help other people, including those who are not Muslims. The Gini index seen from Indonesian BPS data reached 0.384 in September 2023. The unemployment rate in Indonesia has fluctuated. The rate of decline increased long before the Covid-19 period, so that when Covid-19 occurred, the unemployment rate in Indonesia increased. After Covid-19, it gradually started to decline. The increasingly high level of poverty causes more and more people to have no income, thereby increasing unemployment and having an impact on the level of income inequality (Amali & Syafri, 2023) . In 2022 the unemployment rate in Indonesia will reach 5.86. Until August 2023 it decreased to 5.32. Providing them with direct access to financial sector services will engage them and encourage and generate inclusive economic growth and reduce unemployment in Indonesia in the long term. One of them is through bank offices which can increase financial access for low-income people, enabling them to save, borrow and invest. This can help them build assets, increase business opportunities, and improve living standards (Omar & Inaba, 2020)

When more people are unemployed, overall household income decreases. This can lead to an unequal distribution of income, with people who have jobs receiving more money than people who are unemployed. Unemployment can keep people trapped in a cycle of poverty, making it difficult for them to escape low-income situations. This can exacerbate income differences between generations. Unemployment reduces the level of development and income of society, which hinders the achievement of the ultimate goal of development, namely creating prosperity and welfare of society. Thus, increasing the unemployment rate in an area will hinder the achievement of economic development goals (Shavira et al., 2021) .

Data from the Financial Services Authority from 2016 to 2023. Sharia bank offices in Indonesia are increasing every year, so that access to financing for the public is very easy. The direct impact occurs when financial inclusion allows people to obtain credit, insurance and other financial services, which allows people to start businesses that can increase people's income, consumption and independence. Financial inclusion can drive economic growth, gradually helping the poor through job creation and increased government social spending on health, education and social protection. The source of funds for Sharia Commercial Banks is Third Party Funds. Financial Services Authority data from 2016 to 2023 Third Party Funds increase every year. This increase is an interesting phenomenon because it occurred when the national economic situation was unstable. One example is when the global economy experiences a crisis, this will encourage sharia banking to expand in terms of collecting and distributing financing. The better the sharia bank capital system, the stronger the public's trust, which can influence customer financing decisions.

Khoiriyah & Amalia's (2023) research aims to analyze the influence of financial inclusion and financial literacy on income inequality. His research focused on 34 provinces in Indonesia from 2016 to 2019. The results of his research were that financial inclusion had a significant negative effect on income inequality. Meanwhile, financial literacy has no influence on income inequality.

Prastowo's (2018) research Taufiq & Suyasa's (2023) research aims to determine the relationship between financial inclusion and poverty. This research uses data from the National Socioeconomic Survey in March 2022. The results of the research show that financial inclusion has a significant effect on poverty. Research by Ummah et al. (2015) aims to analyze financial inclusion on income equality. The research was conducted in Indonesia with 33 provinces from 2007 to 2011. The results of the research are that financial inclusion has a direct relationship with income equality in Indonesia. Zulkarnain & Satrianto's (2023) research aims to determine the effect of financial inclusion and financial literacy on income inequality. The research was conducted in 34 provinces in Indonesia in 2016, 2019 and 2022. The results of the research were that financial inclusion and financial literacy had no effect on income inequality in Indonesia.

Research by Febriaty et al. (2022) aims to analyze the role of financial inclusion in overcoming income inequality. The research was conducted in Indonesia from 2005 to 2019. Financial inclusion was measured by the number of credit accounts, the amount of third party funds, and the number of ATM machines. The results of his research were that the number of credit accounts and the amount of third party funds had no significant effect on income inequality. Meanwhile, the number of ATM machines has a significant effect on income inequality. Research by Maulidina et al. (2023) aims to determine the effect of financial inclusion and Islamic banking on poverty in Indonesia. The results of his research are that financial inclusion has no influence on economic growth. The third party funding variable has an influence on economic growth. This research is in line with research by Andrian et al. (2021) which states that third party funds have an influence on economic growth.

From previous studies, there are still differences in research results which state that financial inclusion has an effect on income inequality and some say that financial inclusion has no effect on income inequality. Likewise, with the unemployment rate, some say it has an effect and some say it has no effect on income inequality. So there is still a gap between previous research regarding the relationship between financial inclusion and unemployment on income inequality. There is a need for further research on this topic with further research in the period 2016 to 2023. Can financial inclusion and unemployment levels influence income inequality or are there other factors that can influence income inequality in Indonesia. Based on the background of the problem above, the aim of this research is to analyze the influence of sharia financial inclusion and unemployment rates on income inequality in Indonesia.

2. Literature Review

2.1 Income Inequality

Differences in income distribution in a society are known as income inequality. Simply put, this shows how unequal the distribution of income is between individuals or groups in society. The Gini Index is an indicator for measuring income inequality. The Gini Index value ranges between 0 and 1. This index is based on people's net income and is used to determine the extent of the difference between rich and poor people. A value of zero indicates perfect equality, while a value of one indicates perfect inequality. Thus, equal distribution of income will be characterized by a lower Gini Index, while unequal distribution of income will be characterized by a higher Gini Index. Individual income per region is statistically measured by the Lorenz curve, which shows

how distributed the income accumulation function is. The Lorenz curve shows a visual relationship between income distribution and the Gini ratio, namely that the income distribution is more evenly distributed the smaller the area of the river and the smaller the Gini ratio, and vice versa. It can be said that the distribution becomes more even if the Lorenz curve gets closer to the diagonal line. Meanwhile, the shape of the curve which is made worse by the horizontal axis at the bottom and the vertical axis on the right shows the worst condition of perfect inequality (Todaro & Smith, 2011) .

In Islam, income inequality is considered unfair because it is not in accordance with the principles of social and economic justice in Islam. Thus, there is a difference between the rich and the poor. This difference is like the rich group having easier access to resources and thus being able to generate greater income than the poor group. And there is also the practice of usury so that interest is taken on loans. Islam prohibits this because it is considered unfair. Allah SWT. said in QS Ali Imran verse 130:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَأْكُلُوا الرِّبَا أَضْعَافًا مُضَاعَفَةً وَاتَّقُوا اللَّهَ لَعَلَّكُمْ تُفْلِحُونَ

Meaning: O you who believe, do not eat usury with double and fear Allah so that you will be successful (QS Ali Imran: 130).

Riba in Islam is prohibited because it is considered unfair and can enrich the rich at the expense of the poor. Usury is prohibited because it contains elements of exploitation of underprivileged people. This exploitation is carried out through loans, with the aim of making a profit from the value of the loan, even though at the same time it causes losses to other parties (Badruzaman, 2019) . So it needs to be replaced with a fair and sustainable financial system. Therefore, an Islamic financial system is needed to overcome these problems.

2.2 Sharia Financial Inclusion

The Islamic financial inclusion sector has grown along with updates and improvements in financial products and services. This sector also expands the financial sector in four aspects, namely wider financial access, product availability, product use, and improving the quality of both product use and quality. With sharia financial inclusion, people will easily receive financial services and gain access to profitable bank products so that they can meet the needs and desires of the community and their businesses, such as payments, savings, credit, insurance and transactions. Risk management must be implemented by every bank in accordance with OJK regulations. These regulations include policies that support economic growth, such as improving asset quality and changing credit or financing structures (Dewi & Purba, 2022) . An inclusive financial system can improve resource allocation more efficiently, encourage fairer economic growth, and reduce inequality. This is because financial inclusion can increase access to capital for small and medium enterprises (SMEs), encourage investment and create jobs. This can increase income and reduce poverty, thereby contributing to reducing inequality.

Third Party Funds are one of the sources of funds for Sharia Commercial Banks. Third Party Funds are a sharia principle in encouraging financial inclusion. From Third Party Funds, underprivileged people can get access to capital to fulfill or start a business. Meanwhile, for

people who have sufficient income, they can save and invest. This access can help people increase income, save, invest and manage financial risks. Financial inclusion can help narrow income and wealth gaps.

2.3 Unemployment Rate

A person is said to be unemployed if that person is part of the workforce but is reluctant to look for work and does not have a job. If the unemployment rate is high, society cannot maximize its welfare, thus having an impact on public consumption and the quality of human development. Therefore, efforts are needed to reduce poverty by improving worker qualifications. The unemployment rate is the percentage of the number of poor people compared to the number of people who are not working. Unemployment is when someone stops looking for work temporarily. A person is said to be unemployed if he is unable to earn an income. Therefore, theoretically the relationship between unemployment rate and income level is positive. This is because the higher the unemployment rate, the more workers will have no income, which ultimately has an impact on unemployment and an impact on the level of income inequality (Amali & Syafri, 2023) . Islam recommends that every individual has an obligation to work. The unemployed face difficulties in making ends meet due to lack of income, which can lead to poverty and hardship for themselves and their families. With a fair and equal economic system, everyone will have the same job opportunities, so there will be no differences in income.

2.4 Research Model

This research uses two variables, namely independent and dependent. Sharia financial inclusion as measured by Third Party Funds and Sharia Commercial Bank Office Networks, as well as the Unemployment Rate are independent variables. Meanwhile, income inequality is the dependent variable.

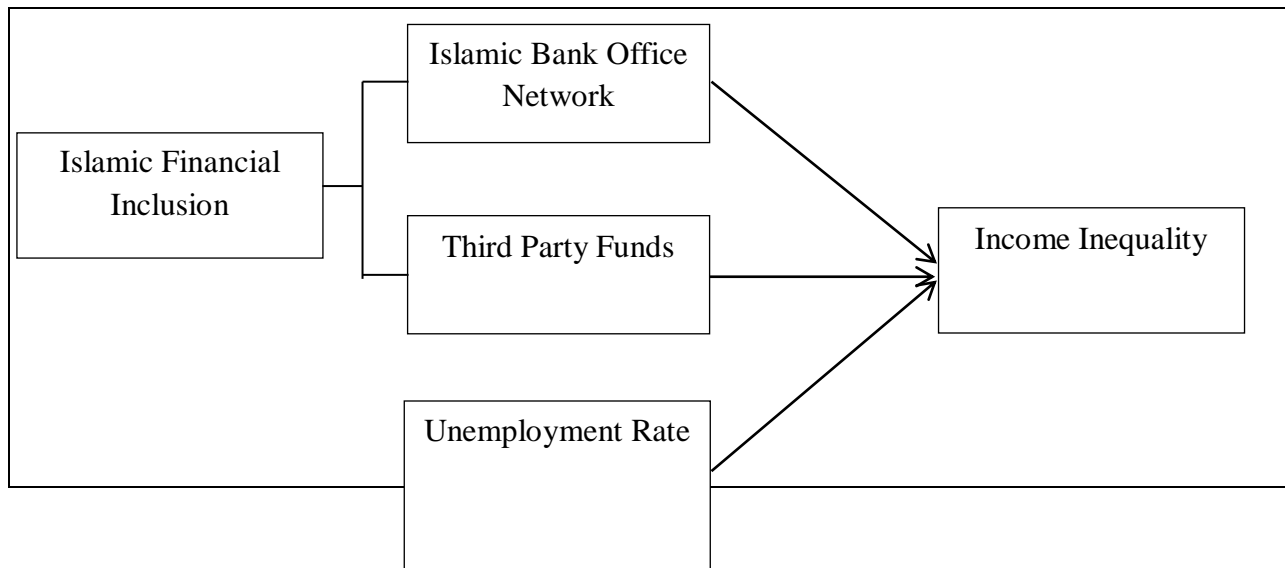


Figure 1. Research Model

3. Research Methods

In this research, the provincial panel data used in this research comes from 2016-2023 and covers 33 provinces in Indonesia. Secondary data used in this research comes from the Financial Services Authority, Central Statistics Agency, and other related literature. This is the data used in the research, namely data on the number of service offices of Sharia Commercial Banks and Sharia Business Units per province, data on the amount of Third Party Funds of Sharia Commercial Banks and Sharia Business Units per province, data on the Unemployment Rate, and data on the Gini Ratio per province. The aim of panel data regression analysis carried out using Eviews 13 is to solve research problems regarding the relationship between two variables. Sharia Commercial Bank Office Network, Third Party Funds, and Unemployment Rate are used as independent variables in this research. Meanwhile, income inequality is used as the dependent variable.

3.1 Regression Model

This research uses panel data regression analysis techniques. Income inequality (Y) is the dependent variable used in this research, and the independent variables used are the Islamic bank office network (X1), Third Party Funds (X2), and Unemployment Rate (X3). The aim of this research is to solve research problems related to the relationship between two or more independent variables and the dependent variable. The panel data regression analysis equation model is given systematically as follows:

$$GINI_{it} = \alpha + \beta_1 BANK_{it} + \beta_2 TPF_{it} + \beta_3 UNEM_{it} + \epsilon_{it}$$

Information:

GINI = Income Inequality

α = Constant coefficient

β = Coefficient

BANK = Sharia bank office network

TPF = Third Party Funds

UNEM = Unemployment rate

ϵ = Error rate

i = 33 provinces

t = time

4. Results and Discussion

4.1 Research Results

The panel data used in this test is to find the best model between the Common Effect Model, Fixed Effect Model and Random Effect Model, using the Chow test model, Hausman test and Lagrange Multiplier test.

Table 1: Model Selection Analysis

Effect Test	Prob.	Results
Chow Test	0.0000	FEM
Hausman Test	0.0826	REM
Lagrange Multiplier Test	0.0000	REM

In the Chow test, the value of Prob. $0.0000 < 0.05$ means the method chosen is the Fixed Effect Model (FEM). For the Hausman test and LM test, the value of Prob. $0.0826 > 0.05$ and $0.0000 < 0.05$ means the method chosen is the Random Effect Model.

Table 2 Multicollinearity Test Results

	BANK	TPF	UNEM
BANK	1,000000	0.622531	0.436918
TPF	0.622531	1,000000	0.335102
UNEM	0.436918	0.335102	1,000000

In the results of the Multicollinearity Test, the correlation coefficient between BANK and TPF was $0.622531 < 0.85$, BANK and UNEM was $0.436918 < 0.85$, and TPF and UNEM was $0.335102 < 0.85$, so it can be concluded that the data is free from multicollinearity.

Table 3: Regression Results

Variables	Coefficient	Std. Error	t-Statistics	Prob.
C	0.358703	0.008709	41.18656	0.0000
BANK	-9.15E-05	3.84E-05	-2.385790	0.0178
TPF	1.56E-07	7.70E-08	2.027606	0.0436
UNEM	-0.000523	0.001013	-0.515823	0.6064
F-statistic	2.517040			
Prob(F-statistic)	0.058653			
R-squared	0.282230			
Adjusted R-squared	0.170100			

Then the regression equation can be written as follows:

$$GINI_{it} = 0.358703 - 0.0000915BANK_{it} + 0.000000156TPF_{it} - 0.000523UNEM_{it}$$

Based on the regression equation, the interpretation is as follows. Based on a constant value of 0.485744, it can be concluded that if the average independent variable increases by one unit, the dependent variable will also increase by 0.358703. The regression coefficient value of the sharia bank office network (BANK) is negative at 9.15E-05, meaning that if the sharia bank office

network (BANK) variable increases by $-9.15E-05$, income inequality (GINI) will decrease by $9.15E-05$. Based on the positive Third Party Funds (TPF) regression coefficient value of $1.56E-07$, it can be concluded that if the third party funds (TPF) variable increases by $1.56E-07$, income inequality (GINI) will increase by $1.56E-07$. Based on the negative Unemployment Rate (UNEM) regression coefficient of 0.000523 , it can be concluded that if the Unemployment Rate (UNEM) variable increases by -0.000523 then income inequality (GINI) will decrease by 0.000523 .

A Prob (F-statistic) value of 0.05 is the same as $\alpha = 0.05$. This shows that the variables of sharia bank office networks, third party funds, and the level of open unemployment have a significant effect on income inequality in 33 provinces in Indonesia simultaneously. The possibility of a simultaneous contribution of independent variables of 28.2% is shown from the results of the R2 test with an R-squared value of 0.282230 . Variables not examined in this study contributed 71.8% . The influence of the independent variable on the dependent variable individually or partially is measured by the t test. In the results of the T test, the following interpretation was obtained: the relationship between the Islamic bank office network (BANK) and income inequality in 33 provinces in Indonesia was proven to be significantly negative with a t-statistic of -2.38 and a significance level of 0.01 , which is smaller than $\alpha = 0.05$. The relationship between third party funds (TPF) and income inequality in 33 provinces in Indonesia is significantly positive with a t-statistic of 2.02 and a significance level of 0.04 which is smaller than $\alpha = 0.05$. The Unemployment Rate (UNEM) shows a negative and insignificant relationship to income inequality in 33 provinces in Indonesia. This is indicated by a t-statistic of -0.51 and a significance level of 0.60 which is greater than $\alpha = 0.05$.

4.2 Discussion

The research results show that the sharia bank office network has a partially negative and significant influence on income inequality in 33 provinces in Indonesia. The probability value for the sharia bank office network is 0.0178 , which is smaller than the significance level of 0.05 and the coefficient is $-9.15E-05$, indicating that if the sharia bank office network increases by 1% , income inequality will decrease by $9.15E-05$. This shows that access to finance in Indonesia has developed, indicating that there is a relationship between the sharia bank office network and income inequality.

Due to the bank's extensive network of offices, people with low incomes can use bank accounts, loans and savings. Improved financial access can help better manage finances, build assets and increase economic opportunities. This increased access can help reduce income inequality by giving low-income people the opportunity to increase their income and build wealth. Factors that are in line with the sharia bank office network are financial services, financial service products, and financial literacy that is accepted by the public. With these additional factors, the level of income inequality can be overcome by providing understanding to the community.

This research is in line with research by Khoiriyah & Amalia (2023) and Prastowo (2018), namely that sharia financial inclusion influences income inequality. With give access to tool and services that can help people improve their living standards, higher financial inclusion can help reduce poverty and income inequality. A wide network of bank offices can increase financial

inclusion, which refers to the proportion of the population that has access to formal financial services. Access to these services can help small and medium-sized businesses grow and create new jobs.

Therefore, there needs to be many parties to overcome this income inequality. By encouraging financial inclusion and ensuring that all people have fair access to financial services, governments can play an important role in reducing income inequality. This can be achieved by expanding bank networks to rural areas, facilitating loans for low-income communities, and improving financial education. Banks can work to reduce income inequality by providing goods and services that meet the needs of low-income people, investing in poor areas, and making fair loans.

The results of data analysis show that Third Party Funds have a positive and partially significant relationship to income inequality in 33 provinces in Indonesia. This is shown by the probability value of Third Party Funds of 0.0436 which is below the significance level of 0.05 and has a coefficient of 1.56E-07 which shows that if Third Party Funds increase by 1% then income inequality will increase by 1.56E-07 . Based on OJK data during this research conducted from 2016 to 2023, Third Party Funds have increased every year, this is due to the relationship between income inequality and Third Party Funds.

With the increase in Third Party Funds every year, this means that many customers are starting to store their assets in Islamic banks. That way, it will be very easy for customers who want to take out a loan. Islamic banks are guided by sharia principles that emphasize justice and equality, which can encourage them to offer more equitable goods and services to low-income communities, facilitating their access to financial services and economic opportunities. By borrowing from a sharia bank, the sharia bank does not lend at interest because of the prohibition of usury in Islam. As a result, Islamic banks may be motivated to offer fairer and sharia-compliant financing, such as profit-sharing (mudarabah) and musyarakah financing, which can help low-income communities develop their businesses without getting trapped in high-interest debt.

This research is in line with research Maulidina et al. (2023) and research by Andrian et al. (2021) namely, Third Party Funds influence income inequality. Third party funds can be loaned to finance business capital so that low-income people can develop their businesses by borrowing funds from sharia banks. Increasing Third Party Funds for sharia banks can increase financial inclusion, especially for low-income communities who previously did not have access to formal financial services. This can help them save, invest and manage their money better. By increasing their business, people can increase their income. Sharia banks can provide sharia financing to small and micro businesses (SMEs) and other productive sectors. This can help increase income, create jobs and encourage inclusive economic growth.

Therefore, fair and good performance and governance of Islamic banks is very important to ensure that Third Party Funds are used effectively and responsibly to help reduce income inequality. Sharia bank Third Party Funds can help reduce income inequality through various mechanisms based on sharia principles and fund mobility. Government policies that encourage

the growth of Islamic banking and encourage financial inclusion can help expand the reach of Islamic banks and increase their positive impact on income inequality.

The results of data analysis show that the unemployment rate has a partial negative correlation and does not have a significant influence on income inequality in 33 provinces in Indonesia. This is indicated by the probability value of the Unemployment Rate, which is 0.6064, which is greater than the significance level of 0.05 and a coefficient of -0.000523, which indicates that if the Unemployment Rate increases by 1%, income inequality will decrease by 0.000523. The Unemployment Rate increases every years during this research period, namely from 2016 to 2023. According to theory, if the unemployment rate increases then income inequality will also increase, but this is not in accordance with this research.

The unemployment rate is one of the factors most often associated with income inequality throughout the world and is a complex problem involving many interrelated variables. The relationship between income inequality and the unemployment rate is complex and multidimensional so that income inequality is not only measured by the unemployment rate alone but there are several other factors that influence it. Compared with structural unemployment, caused by technological developments or globalization, cyclical unemployment may have a different impact on income inequality.

The unemployment rate does not affect income inequality, according to research by Li (2023) and Berg (2016) . Because, they have allowances given to individuals who do not have a job. This poverty allowance is given to workers or laborers who have lost their jobs so they are entitled to Job Loss Insurance. So, with these benefits, there is no relationship between income inequality and poverty levels. However, this research is different from the research of Ersad et al. (2022) , Yoertiara & Feriyanto (2022) , and Nadya & Syafri (2019) , which states that the unemployment rate can influence income inequality. This is considered because people who do not work do not receive compensation, causing income inequality.

Therefore, when the unemployment rate is high, workers have more opportunities to bargain and can demand higher wages. This can help reduce the income gap between low-wage workers and high-wage workers. So to finance social safety net programs and reduce income inequality, the government might raise taxes on the rich. And income inequality is not only measured by the unemployment rate but there are other factors such as globalization, technological changes and government policies.

5. Conclusions and Recommendations

5.1 Conclusion

In the 2016–2023 period, there are differences of opinion regarding the influence of sharia financial inclusion and poverty levels on income inequality in 33 provinces in Indonesia. Sharia financial inclusion as measured by bank office network data and third party funds has an influence on income inequality in Indonesia. By providing access to capital and other financial services, financial inclusion can help people start their own businesses. Entrepreneurship has the potential to reduce income inequality and encourage more inclusive economic growth by creating new jobs. Savings and investments can help reduce income inequality by building assets

and increasing wealth. Factors such as the design and implementation of financial inclusion policies, people's knowledge of finance, and overall macroeconomic conditions determine how effective financial inclusion is in reducing income inequality.

Meanwhile, the unemployment rate has no effect on income inequality in Indonesia. This is because income distributed between individuals and households influences the level of income inequality more than just the overall unemployment rate. Although the unemployment rate can contribute to income inequality, the relationship between income inequality and the unemployment rate is influenced by many other factors. Effective policies to reduce income inequality must consider all factors simultaneously.

5.2 Suggestions

A lot of support is needed from various parties to reduce income inequality in Indonesia. There is a need to expand the sharia bank network to rural areas, provide literacy related to sharia finance, and facilitate loans to low-income community groups so that they can do business and have income so they can save and invest in sharia banks. Appropriate and fair distribution of funds can reduce income inequality. Don't use interest on loans because Islam prohibits usury. Tax collection also needs to be done appropriately and fairly to avoid income disparities.

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