

ABSTRACT

The Human Development Index (HDI) has emerged as a pivotal instrument to assess the progress of a nation in the domains of education, health, and decent standard of living. Financial inclusion has been identified as a potential driver of HDI. The purpose of this study is to examine the impact of financial inclusion, as measured by the Access, Availability, and Usage dimensions, on HDI in 34 provinces during the period from 2019 to 2021. This research adopts a two-mixed analysis methodology. In the first method, Principal Component Analysis (PCA) is utilized to gauge and categorize financial inclusion into three dimensions. In the second method, Fixed Effect Model (FEM) is employed to assess the effect of the three dimensions of financial inclusion on HDI.

The findings of this research indicate that Account Ownership, ATM Machines, and Public Loan Positions are the primary indicators representing Access, Availability, and Usage dimensions, respectively. Furthermore, the results of the FEM regression reveal that the Access Dimension has a positive effect and significant on HDI, whereas the Availability Dimension has a significant positive effect on HDI. On the other hand, the Usage Dimension has a positive and significant impact on HDI.

Keywords: Human Development Index, Access Dimension, Availability Dimension, Usage Dimension, Fixed Effect Model