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THE CONTRIBUTION OF ISLAMIC CAPITAL MARKET AND ISLAMIC INSURANCE TO INCLUSIVE ECONOMIC DEVELOPMENT IN INDONESIA

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Abstract

The study aims to identify the contribution of some Islamic financial instruments from Islamic capital markets and Islamic non-bank financial institutions to inclusive economic development in Indonesia. While some studies have examined the contribution of some Islamic financial instruments to a single measure of economic indicators, this study tries to fill the gap in the context of multi indicators to explain economic development, so the authors propose an inclusive economic development index that consists of 21 indicators. This study employed a quantitative research method using secondary data from 2011-2020 from several sources (Financial Service Authority, the Ministry of Finance Republic Indonesia, and the Ministry of National Development Planning (BAPPENAS)). The main variables used are the Jakarta Islamic Index (JII) market capitalization, total outstanding Sukuk, Islamic insurance total claim, and inclusive economic development index. The research data is analyzed using multiple regression linear models. The result found that only the total outstanding Sukuk significantly impacted inclusive economic development. In contrast, the others variables are insignificant.

Keywords: *Islamic finance; Islamic capital market; Islamic Insurance; Sukuk; Jakarta Islamic Index (JII); Inclusive economic development index*

Abstrak

Penelitian ini bertujuan untuk mengidentifikasi kontribusi beberapa instrumen keuangan syariah dari pasar modal syariah dan lembaga keuangan non-bank syariah terhadap pembangunan ekonomi inklusif di Indonesia. Sementara beberapa penelitian telah meneliti kontribusi beberapa instrumen keuangan Islam untuk ukuran tunggal indikator ekonomi, penelitian ini mencoba untuk mengisi kesenjangan dalam konteks multi indikator untuk menjelaskan pembangunan ekonomi, sehingga penulis mengusulkan indeks pembangunan ekonomi inklusif yang terdiri dari 21 indikator. Penelitian ini menggunakan metode penelitian kuantitatif dimana data sekunder tahun 2011-2020 dari beberapa sumber (Otoritas Jasa Keuangan, Kementerian Keuangan Republik Indonesia, dan website Badan Perencanaan Pembangunan Nasional (BAPPENAS) yang terdiri dari kapitalisasi pasar Jakarta Islamic Index (JII), total outstanding Sukuk, total klaim asuransi syariah, dan indeks pembangunan ekonomi inklusif. Data penelitian dianalisis dengan menggunakan model regresi linier berganda. Hasil penelitian menunjukkan bahwa hanya total outstanding Sukuk yang berpengaruh secara signifikan terhadap pembangunan ekonomi inklusif, sedangkan variabel lainnya tidak signifikan.

Kata kunci: Keuangan syariah; pasar modal syariah; asuransi syariah; Sukuk; Jakarta Islamic Index (JII); indeks pembangunan inklusif

INTRODUCTION

Financial products can be an intermediary for a country's economic activities. On a micro-scale, the purpose of carrying out economic activities is to meet needs, while on a macro-scale; it has designed to boost the country's livelihood. However, the purpose of the economy is not merely to increase livelihood. The goals of inclusive economic development are focused on improving welfare, reducing disparities between groups/regions, and creating broader access/economic opportunities/development for all levels of society equitably. The Government of the Republic of Indonesia and related state apparatus such as the Ministry of National Development Planning (PPN)/National Development Planning Agency (BAPPENAS) are working hard to realize this goal. Development carried out by the government/state must ensure equality and justice and maintain community diversity. Thus, a holistic and comprehensive standard method or instrument is needed to achieve development level and inclusive economic growth in Indonesia to be measured. The inclusive economic development index looks at the inclusiveness of Indonesia's development through aspects of economic growth and development, inequality, and poverty, in addition to access and opportunity (inklusif.bappenas.go.id).

As part of the Republic of Indonesia National Development Plan, Islamic finance is about religious preferences and the purposes of the Shariah (Maqasid al-Shariah). Islamic finance has latent power in playing a crucial role in empowering individuals and communities, promoting entrepreneurial culture, and investing in a real and sustainable economy to benefit the broader community and the Indonesian economy. The Master Plan for Islamic Finance Architecture (MAKSI) focuses on making Islamic finance a real force for Indonesia by leveraging its economic dynamics and not on religious arguments. So that further, in its implementation, it will create a supportive environment for the Islamic finance industry to channel its potential and play a crucial role in building the national economy in line with the objectives of sharia and the priorities of the Government of Indonesia (BAPPENAS, 2016). The inclusion of Islamic finance into the mainstream of the national strategy will help the government achieve its development goals (Abdalloh, 2019; Soekarwo, 2018; Paulus et al., 2020).

The most significant asset of Islamic insurance (Takaful) as a non-bank Islamic financial sector product has an intermediation function to protect the value with mutual assistance (tabarru') contract. Sharia securities issued will be performed to investors through an intermediation mechanism in the Islamic capital market. In this case, securities Issuers as suppliers (supply side), Investors as Securities buyers (demand side), and Stock Exchanges as intermediary functions in the Islamic capital market (Abdalloh, 2019) and (Fauzan & Suhendro, 2018). The thirty most liquid Islamic stocks on the Indonesia Stock Exchange were collected through a screening process, had the largest market capitalization, and were the most liquid were collected into one, incorporated in an index called the Jakarta Islamic Index (JII) (Auliyatussaa'dah et al., 2021). Islamic stocks incorporated in JII and Sukuk are Islamic capital market instruments most widely known and discussed by Islamic finance experts.

Financing in Islamic banking has a role in economic growth, as explained by studies (Gudarzi Farahani & Dastan, 2013); (Hachicha, Nejib and Amar, 2015); (Ramírez Guerra, 2017); (Caporale & Helmi, 2018); (Loaba & Zahonogo, 2019); (M. Anwar, Junaidi, Salju, Wicaksono, & Mispiyanti, 2020) with research samples from various countries. (Alirzayev, Shamkhalova, & Abdulov, 2020) Examines the impact of non-banking credit organization credits (NBOCs) on economic growth in Azerbaijan and proves the existence of a cointegration relationship between variables in the long term which means that NBCOs can increase the economic growth of Azerbaijan.

While, (Tan & Mohamad Shafi, 2021); (Smaoui & Khawaja, 2017) studied the capital market and economic growth in Malaysia, and Sukuk represents one of the Islamic capital market instruments. (Ledhem, 2020) demonstrated that Sukuk financing is boosting economic growth in Southeast Asia, and (Kartini & Milawati, 2020) elaborated a comparative study between Sukuk and conventional bonds in Indonesia. The research conducted by (Ben Jedidia Khoutem, 2014); (Malikov, 2017); (Smaoui & Nechi, 2017); (Archer, 2018); (Sari, Syamsurijal, & Widiyanti, 2018); and (Yıldırım, Yıldırım, & Diboglu, 2020) also states that Sukuk can boost economic growth and development.

Other studies with different Islamic capital market instruments were conducted by (Coşkun, Seven, Ertuğrul, & Ulussever, 2017) in Turkey, while

(Taqwa, Khoirul Zadid & Sukmana, 2018), and (Sari et al., 2018) in the context of Indonesia; while (Sawadogo, Guerineau, & Ouedraogo, 2018; Ul Din, Abu-Bakar, & Regupathi, 2017) and (Rawat & Mehdi, 2017) studies specifically on Islamic insurance.

However, their researches only focus on single-measure proxies of economic growth, such as gross domestic growth. Therefore, this study is intended to measure how much influence Islamic finance instruments such as Sukuk, JII, and Islamic insurance have on various indicators of more inclusive and comprehensive economic development as proposed by the Ministry of National Development Planning/BAPPENAS. The study's findings are expected to provide theoretical and practical information for stakeholders. Theoretically, this study is expected to fill in the literature gap on the effect of total outstanding Sukuk, market capitalization of JII, and total claim of Islamic insurance to inclusive economic development. While practically, the findings are expected to provide insight for stakeholders, including government, regulators, investors, academicians, and public to promote Islamic finance as their preference and to support inclusive economic development in Indonesia.

LITERATURE REVIEW

The concept of economic growth is probably something that we often hear related to the measure of increasing the economic welfare of the people in a country. Generally, this measure is indicated by the gross domestic product (GDP), gross domestic product per capita, adjusted net national income, annual growth, and others. Economic growth improves production possibilities but does not always mean equal benefits. Some UN reports are full of recent examples of growth accompanied by inequality, poverty, or both (Asongu, Amavilah, & Andrrs, 2014).

The inclusive economic development index calculates Indonesia's economic development that includes three pillars, namely: (i) economic development and growth, (ii) income distribution and poverty reduction, and (iii) expansion of access and opportunity, and divides it into 8 (eight) sub-pillars and 21 (twenty-one) indicators which will further explain in the literature review section (Table 1). This index is expected to provide a clear picture and calculation of economic growth and its benefits for all levels of society. The combination between Indonesia's inclusive economic development and the development of Islamic finance has received support from the government stated in one of the Government Work Plans (RKP) 2020-2024 (Indrawan, 2013; Sihaloho, 2015; Cholifihani, 2019).

According to the UN, growth is inclusive if it (a) creates decent employment for all; (b) provides opportunities to all social segments of the economy; (c) promotes equality of money and non-money gains from growth; (d) improves human capital (education, skills, health, longevity (life expectancy), mobility for at least the poorest, and (e) makes attainable social justice, individual liberty, and other forms of freedom (Asongu et al., 2014). Thus, economic growth is not enough. As (Chistik & Eliseev, 2019) state, there is a need for the development and application of new concepts of economic growth.

The concept of 'Inclusiveness' is hard to define in the economic development literature. The literature addressing this issue takes for granted that 'inclusiveness' means that economic growth be broad-based and its benefits be shared with the vulnerable sections of society. It proposes that the measure is based on a utilitarian social welfare function, 'where inclusive growth depends on two factors: (i) income growth and (ii) income distribution' (Anand et al. 2014) cited in (Shetty, Reforms, & Doctrines, 2020)

The research conducted by (Cabeza-García, Del Brio, & Oscanoa-Victorio, 2019) used gross domestic product (GDP) as an inclusive economic development. However, (Prada & Sánchez-Fernández, 2019) states that a higher GDP is no guarantee of the high economic development of a territory because wealth may increase at the cost of diminishing other social indicators affecting development.

There are several ways to achieve inclusive economic growth: accelerating growth dual with equitable growth, eliminating inequality by ensuring equality of opportunity, increasing the number of productive workers, strengthening production capacity, and realizing a social safety net system (Hapsari, 2019). (Inklusif.bappenas.go.id) states that there are 3 (three) pillars, 8 (eight) sub-pillars and 21 (twenty-one) indicators forming the inclusive economic development index are described in Table 1.

The inclusive economic development index discussion has recently become a trending topic. The paradigm shift from a single index representing economic growth or development to a multidimensional index representing inclusiveness is indispensable for policymakers. As (Prodius, 2020), stated, the concept of inclusive development can best ensure the implementation of sustainable and balanced development principles. At the same time, it can avoid such threats as crises related to lack of resources and limited access to them; increasing social inequality and poverty; exclusion of certain marginal groups from the political, economic, and social life of society; rising unemployment; social and political conflicts; and environmental crises. Furthermore, inclusive economic development also connects with public investment policy, which would reduce inequality level in society and improve the citizens' well-being. However, research concerning inclusive economic development is still limited. On the other hand, many studies mention economic growth.

Table 1 The Pillars, Sub-Pillars, and Indicators of Inclusive Economic Development Index in Indonesia

Pillar	Sub-Pillar	Indicator
1. Economic Growth & Development	1.1 Economic Growth	(1) Real Gross Domestic Product per Capita
		(2) Manufacturing Share to Gross Domestic Product
		(3) Banking Credit Ratio to Nominal Gross Domestic Product
	1.2 Job Opportunities	(4) Job Opportunity Rate
		(5) Percentage of Fully Employed Population
		(6) Percentage of Workforce with Upper Secondary Education Level
	1.3 Economic Infrastructure	(7) Percentage of Households Using Electricity/PLN
		(8) Percentage of Population Owning a Mobile Phone
		(9) Percentage of Roads with Good & Medium Conditions
2. Income Distribution & Poverty Reduction	2.2 Poverty	(13) Percentage of Poor Population
	2.1 Inequality	(10) Gini Income Ratio
		(11) Women's Income Contribution
		(12) Average of Rural & Urban Household Expenditure Ratio
		(14) Average Protein Consumption per Capita per Day
3. Expansion of Access & Opportunities	3.1 Human Capabilities	(15) Expectations for Long Schooling
		(16) Percentage of Toddlers Who Get Complete Basic Immunization
		(17) Percentage of the Population Who Have Health Insurance
	3.2 Basic Infrastructure	(18) Percentage of Households with Adequate Drinking Water Source
		(19) Percentage of Households with Own Toilet Facilities
	3.3 Inclusive Finance	(20) Ratio of Total TPF Accounts to Population of Productive Age
		(21) MSME Banking Loan Ratio

Source: Data Processing by Authors (Inklusif.bappenas.go.id) (2022)

HYPOTHESIS

The (Smaoui & Khawaja, 2017) studied capital market and economic growth in Malaysia, which Islamic bond (Sukuk) represents as the Islamic capital market instruments. The results show robust evidence that the Islamic bond (Sukuk) market significantly promotes long-run economic development.

In the context of Southeast Asia, (Ledhem, 2020) demonstrated that Sukuk financing is boosting economic growth in Southeast Asia, which mirrors the significant part of the Islamic financial markets of Sukuk as a vigorous contributor to economic growth. Furthermore, (Kartini & Milawati, 2020) elaborated a comparative study between Sukuk and conventional bonds in Indonesia linked to economic growth. Using an ARDL (Auto-Regressive Distributed Lag) method, they experimental the effect of Islamic bond (Sukuk) on short- and long-term economic growth. Their study shows that in the short term, Islamic bond (Sukuk) does not affect economic growth, while bonds affect economic growth.

On the long term, Islamic bond (Sukuk) affects economic growth more than conventional bonds. (Tan & Mohamad Shafi, 2021) Explore the impacts of the capital market on economic growth by seeing the role of Sukuk (Islamic bond) and other capital market sub-components in Malaysia between 1998-2018 years. Their results expose a long-run equilibrium relationship between capital market variables and economic growth. As expected, Sukuk (Islamic bond) has a significant and positive impact. Hence, based on the previous studies, the first hypothesis can develop as follow:

H1: Sukuk has a significant impact on inclusive economic development in Indonesia

In general, some studies examine Turkey's capital market and economic growth nexus (Coşkun et al., 2017). They find a long-run cointegrating relationship between capital market development and economic growth; a unidirectional causality running from capital market development to economic growth. (Taqwa, Khoirul Zadid & Sukmana, 2018) Studies whether Islamic finance performance can foster Indonesia's economic growth during 2003-2015. The paper relies on Auto-Regressive Distributed Lag (ARDL) approach as a research method. The Jakarta Islamic Index (JII) market capitalization is a proxy for Islamic capital market development. The test results for the JII market capitalization variable positively affect Indonesia's economic growth as a proxy by the Gross Domestic Product (GDP) variable. Other studies related to the impact of Sukuk, the Jakarta Islamic Index, and Islamic Mutual Funds in Indonesia conducted by (Sari et al., 2018) show that if the development of the Islamic capital market increases, economic growth in Indonesia will also increase. On the contrary, if there is a decline in the development of Islamic capital markets, then economic growth also shows a decline. Hence, based on the previous studies, the second hypothesis can develop as follow:

H2: Jakarta Islamic Index (JII) has a significant impact on inclusive economic development in Indonesia

Based on our research, the studies of Islamic insurance specifically are still limited. However, there are studies of the general context of conventional insurance worldwide that are plenty more. Several studies about insurance development and economic growth in developed and developing countries were conducted by (Sawadogo et al., 2018; Ul Din et al., 2017). Their result revealed a significant positive impact on economic growth in developed and developing countries. (Rawat & Mehdi, 2017) study the impact of Islamic banks and Takaful companies on economic growth in the case of Pakistan. The total contribution of Takaful companies was used as an independent variable, while Gross Domestic Product represents the economic growth of Pakistan. The study concluded that there is a positively significant role in the total contribution of the Takaful companies associated with economic growth. Hence, based on the previous study, the third hypothesis can develop as follow:

H3: Islamic insurance has a significant impact on inclusive economic development in Indonesia

METHOD

The data used in this study are secondary data from the 2011-2020 year, taken from several sources. The Jakarta Islamic Index (JII) market capitalization and Islamic insurance total claim data were obtained from the official Financial Services Authority (*Otoritas Jasa Keuangan*) website. The total outstanding Sukuk data had collected from the Ministry of Finance Republic of Indonesia's official website. The inclusive economic development index data had obtained from the Ministry of National Development Planning (BAPPENAS) officials' website. After all the data are available, the next step is to construct and analyze the research model with the EVIEWS 9 software of multiple regression estimation. For best consideration, the proposed research models of this study are as formula (1).

$$Y = a + B_1 JII + B_2 SUKUK + B_3 ISLAMIC\_INSURANCE + e \qquad (1)$$

Y is the index of inclusive economic development, a is constant, JII is the market capitalization of the Jakarta Islamic Index, SUKUK is the total outstanding Sukuk, ISLAMIC_INSURANCE is the Islamic insurance total claim, and e is the error term. While the operational definition of the variables used in this study in Table 2.

Table 2. Operational Definition of Research Variables

No	Independent Variables (X)	Description
1	Sukuk	$\frac{\text{Total Outstanding Sukuk (Government \& Corporate)}}{\text{Gross Domestic Product Bruto}} \times 100$
2	Jakarta Islamic Index (JII)	$\frac{\text{Market Capitalization of Jakarta Islamic Index}}{\text{Gross Domestic Product Bruto}} \times 100$
3	Islamic Insurance	$\frac{\text{Total Claim of Islamic Insurance}}{\text{Gross Domestic Product Bruto}} \times 100$

Dependent Variables (Y)	Indicators	Description
Inclusive Economic Develop-ment Index	1. Real Gross Domestic Product (GDP) Growth per Capita	(GDP(GDPR))/(∑population)
	2. Manufacturing Share to Gross Domestic Product	(GDP(GDPR)Processing Industry /(Total GDP(GDPR) × 100%
	3. Banking Credit Rasio to Nominal GRDP	(Total Credit)/(Total GDP(GDPR))
	4. Job Opportunity Rate	(∑Working People)/(∑Labor Force)×100%
	5. Percentage of Fully Employed Population	$\left(\sum \text{Working People} \geq 35 \frac{\text{hr}}{\text{week}}\right)$ /(∑Working People) ×100%
	6. Percentage of Workforce with Upper Secondary Education Level	(∑Working People (Senior High School Education)/ (∑Total Working People) ×100%
	7. Percentage of Households Using Electricity/PLN	(∑Households Using Electricity /(∑Total Households) ×100%
	8. Percentage of the Population Owning a Mobile Phone	(∑Population Owning a Mobile Phone)/ (∑penduduk)×100%
	9. Percentage of Roads with Good & Medium Conditions	$\frac{\sum\text{Roads with Good Condition}}{\text{Total Area}} \times 100\%$
	10. Gini Rasio Income	$\text{GR} = 1\text{-}\sum_{i=1}^{n} p_i(f_i + f_{i-t})$
	11. Women's Income Contribution	$X = AK_F \times \text{rasio } w_f$
	12. Average of Rural & Urban Households Expenses Ratio	$\frac{\text{Average of Rural Households Expenses}}{\text{Average of Urban Households Expenses}}$
	13. Percentage of Poor People	(Total of Poor People)/(Total Population) × 100%

Table 2 Operational Definition of Research Variables (Continued)

Dependent Variables (Y)	Indicators	Description
	14. Average of Protein Consumption per Capita a Day	(Total Protein Consumption)/(Total Population)
	15. Expectation of Long Schooling	$HLS_a^t = FK \times \sum_{i=a}^{n} \frac{E_i^t}{P_i^t}$
	16. Percentage of Toodlers Who Get Complete Basic Immunization	(Total Toodlers Who Get Complete Basic Immunization)/(Total Toodlers of Ages < 5 year)×100%
	17. Percentage of the Population Who Have Health Insurance	(Total Population Who Have Health Insurance)/(Total Population)×100%
	18. Percentage of Households with Adequate Drinking Water Source	(∑Households with Adequate Drinking Water Source)/(∑Total Households) × 100%
	19. Percentage of Households with Own Toilet Facilities	(∑Households with Own Toilet Facilities)/(∑Total Households)×100%
	20. Ratio of Total TPF Account to Population of Productive Age	$\frac{\text{Total of TPF Account}}{\text{Total of Productive Age}}$
	21. MSME Banking Loan Ratio	$\frac{\text{Total MSME Loan Account}}{\text{Total Banking Loan Account}}$

Source: Data Processing by Authors (Inklusif.bappenas.go.id) (2022)

RESULTS AND DISCUSSION

Result of Multiple Regression and Hypothesis Testing

The study began with a preliminary examination using classical assumption tests to check residual normality, non-multicollinearity, non-autocorrelation, and non-heteroscedasticity. The residual normality test follows the jarque-bera method. If the p-value is greater than 0.05, the residual is normally distributed. The Multicollinearity test uses Variance Inflation Factors (VIF). When the Centered VIF value of all independent variables is less than 10, there is no multicollinearity problem in the prediction model. The next test is the autocorrelation test using the Breusch-Godfrey Serial Correlation LM Test. If the Obs* R-squared and Prob. The Chi-Square is greater than 5%, so the model has no serial autocorrelation. The heteroscedasticity test uses the White-test. If the p-value (indicated by the Prob value. Chi-Square (2) on Obs* R-Squared) is greater than 5%, the regression model has a non-heteroscedasticity problem.

Table 3 shows the Centered VIF value variable market capitalization JII value of 1,222, total outstanding Sukuk value of 5,979, and total claim of the Islamic insurance value of 5,475. The values of Obs* R-Squared and Prob. The chi-Squared of the Breusch-Godfrey Serial Correlation LM Test is used to determine serial autocorrelation in the model. The value of Obs* R-squared and Prob. Chi-Square is 0.522 and 0.321, meaning the research model is free from autocorrelation problems.

Meanwhile, the values of Obs* R-Squared and Prob. Chi-Square (2) of the White-heteroscedasticity test shows values of 1.901 and 0.947, which means that the value is greater than 0.05 and is declared to have passed the heteroscedasticity test. The jarque-bera value resulting from the normality test is (0.759) and is greater than the jarque-bera table value (5.99), so the research model is declared normally distributed. After all the classical assumption tests had been conducted, the three research equation models fulfilled the classical assumption requirement.

In the next part of the statistical analysis, we test the hypothesis proposed in this study. The result of the test is given in Table 4. Based on Table 4, the total outstanding Sukuk affects the inclusive economic development index. Sukuk has an T-count value of 2.174794 is greater than the T-table (1.94318). Thus, it concluded that Sukuk significantly influences the inclusive economic development index at a 10% significance level. A positive Sukuk regression coefficient value of 0.237219 is interpreted as follows: if the total value of outstanding Sukuk increases by 1% with the assumption that other variables are fixed, the inclusive economic development index will increase by 0.237, and vice versa. Therefore, the first hypothesis of this study is accepted.

Meanwhile, the JII market capitalization variable and the total claim of Islamic insurance show insignificance to the inclusive economic development index. A positive JII regression coefficient value indicates that if there is an increase in market capitalization, JII will increase the inclusive economic development index.

The coefficient of determination (R-Squared) is 0.817. In other words, the independent variables (total outstanding Sukuk, the market capitalization of JII, and Islamic insurance total claims) can explain the inclusive economic development index variable of 81.7%. In comparison, the remaining 18.3% is explained by other variables not included in this research model. The Adjusted R-Square value means that the standard error value has corrected the R-Square value. In this study, the Adjusted R-Square value is 0.727 while the standard error value for the regression model is shown by SE of regression is 0.038. This standard error value is smaller than the standard deviation value of the response variable shown by the SD dependent var of 0.072 means that the regression model is valid as a predictor model. The F-statistic value is 8,991 with a Prob (F-statistic) of 0.012 (less than 0.05), so it concluded that the independent variables simultaneously affect the dependent variable in this research model.

Table 3. Multicollinearity, Autocorrelation, and Heteroskedasticity Test Result

	Multicollinearity – Variance Inflation Factor (VIF)		
Variable	*Coeff. Variance*	*Uncentered VIF*	*Centred VIF*
JII	0.001970	3411.517	1.222030
SUKUK	0.000429	566.1698	5.979113
ISLAMIC_INSURANCE	470.6612	24.94132	5.474718
C	0.015701	2916.251	NA
	Autocorrelation - Breusch-Godfrey Serial Correlation LM Test		
F-statistic	0.491498	Prob. F(1,4)	0.5219
Obs*R-squared	0.984856	Prob. Chi-Square(1)	0.3210
	Heteroskedasticity Test - White		
F-statistic	0.446335	Prob. F(3,5)	0.7306
Obs*R-squared	1.901093	Prob. Chi-Square(2)	0.5932
Scaled explained SS	0.365068	Prob. Chi-Square(2)	0.9474

Source: Data Processing by Authors (2022)

Tabel 4. Multiple Regression Test Result

Variable	Coefficient	Std. Error	t-Statistic	Prob.
JII	0.341519	0.203260	1.680209	0.1439
SUKUK	0.237219	0.109076	2.174794	0.0726
ISLAMIC_INSURANCE	-0.770738	1.171592	-0.657855	0.5350
C	0.038909	0.598648	1.171592	0.9503
R-squared	0.818041	Mean dependent var		1.683149
Adjusted R-squared	0.727061	SD dependent var		0.072217
SE of regression	0.037729	Akaike info criterion		-3.427603
Sum squared resid	0.008541	Schwarz criterion		-3.306569
Log-likelihood	21.13801	Hannan-Quinn criter.		-3.560377
F-statistic	8.991462	Durbin-Watson stat		2.196761
Prob(F-statistic)	0.012244			

Source: Data Processing by Authors (2022)

Discussion

The role of Islamic finance in the economy is indisputable. The unique characteristics of Islamic finance, which are full of the values of justice and in line with providing benefits to the broader community, align with the expectations of carrying out economic activities in various sectors of life. One example (Hastuti, 2017) conveyed that State Sukuk can play a role in development to alleviate the APBN budget deficit and increase real sector development. According to (Beik, 2011), the orientation of the State Sukuk is for the labor-intensive sector, optimization of regional potential, and infrastructure development (transportation, telecommunications, energy, etc.). Economically, Sukuk can produce many multiplier effects from infrastructure development. A more detailed opinion had conveyed by the Directorate of Sharia Financing of the Ministry of Finance of the Republic of Indonesia regarding the benefits of issuing State Sukuk for the government, namely: (1) financing the State Revenue and Expenditure Budget (APBN), (2) diversification of financing sources, (3) Expanding the investor base, (4) encouraging the expansion of the Islamic financial market, (5) managing the state financing portfolio, (6) optimizing the utilization and encouraging orderly management of state property, and (7) financing project developments such as infrastructure in the energy, telecommunications, transportation, agriculture, manufacturing industries, and public housing, while corporate Sukuk can play a role in financing investment activities that do not conflict with sharia principles in the capital market (Soemitra, 2014).

It had proven in the study that the benefit of Sukuk issuance plays a significant role in the inclusiveness of economic development in Indonesia. Sukuk supports realising the inclusiveness goal of economic development that prioritizes economic development growth, income distribution, poverty reduction, expansion of access, and opportunities. Sukuk has proven to have a positive effect, which means that if there is an increase in Sukuk, it will increase the inclusiveness of economic development in Indonesia. The results of this study are in line with previous studies by (Smaoui & Khawaja, 2017); (Ledhem, 2020); (Kartini & Milawati, 2020); and (Tan & Mohamad Shafi, 2021).

Meanwhile, a group of Islamic stocks traded openly on the stock exchange is included in Islamic financial instruments, which can be an alternative investment option more attractive than Sukuk. The competent authority has screened this collection of Sharia stocks, selected the thirty stocks with the largest market capitalization, and ranked in an index known as the Jakarta Islamic Index (JII). The presence of JII can give the capital market an assess the Indonesian economy. By driving the growth of JII's market capitalization, it is expected to open up more job opportunities and raise standards for listing member companies. In addition, the Islamic capital market is generally considered capable of avoiding a crisis because it invites investors to invest by limiting speculative behavior and providing unbiased market information. Through this mechanism, the Islamic capital market can contribute to economic growth.

However, this does not seem to have worked as expected. The results showed the opposite. JII market capitalization had an insignificant effect on the inclusive economic development in Indonesia. In other words, previous studies (Coşkun et al., 2017), (Taqwa, Khoirul Zadid & Sukmana, 2018), (Sari et al., 2018) do not support the results of the research. The reason that allows this to happen could be because the characteristics of investors from the Islamic capital market in Indonesia currently still tend to be motivated to seek profits in the short term so that they do not contribute to the factors forming inclusiveness of economic development. In addition, it is possible that the majority of listing companies' members of JII are not yet engaged in supporting inclusive economic development. This raises big questions for researchers and creates a new, more challenging discussion space about whether the sectoral focus of the listing companies' members of the JII will also contribute to the inclusive economic development in Indonesia.

The non-bank Islamic finance sector is also a fascinating topic of discussion from time to time and complements intermediary institutions in the financial industry in Indonesia. Islamic insurance, an Islamic non-bank financial institution, has the largest assets. So far, Sharia insurance has had a positive impact on the economic development of the people. In other words, professional human resources (HR) had a significant economic value in ensuring Islamic insurance companies existed in professional human resources (HR). This means it will open or move the labor market and create a multiplier effect. A professional education and training institution or institution and a professional workforce are needed To create professional human resources. The workers are given a decent salary or compensation. The salary must be used for consumption and other purposes. This means it will increase the demand for goods and services.

Second, the claims of Sharia insurance participants paid to Sharia insurance institutions will be invested in productive things using the mudharabah system. This means that the investment made will move the real sector of the people's economy. That way will bring up another multiplier effect, depending on the type of business being carried out. Third, if there is a disaster that befell the participants of the sharia insurance, a fire will not make the participant fall into poverty because all his property and house are on fire. At least three economic phenomena will positively contribute to Sharia insurance activities (Iswadi, 2015).

Similarly, the Islamic capital market and insurance do not influence inclusive economic development. The results of this study contradict previous studies conducted by (Sawadogo et al., 2018; Ul Din et al., 2017), and (Rawat & Mehdi, 2017). Although it has been mentioned earlier that Islamic insurance assets are the largest among other Islamic non-bank financial institutions, this is not enough to significantly impact inclusive economic development in Indonesia. The lack of innovation in Islamic insurance products, which are currently only limited to life, health, education, home, and vehicle insurance products, is also why the Islamic insurance sector has not yet targeted the goal of inclusive economic development in Indonesia.

The various types of tradable Sukuk instruments on the stock market should increase even more. So, people from various economic levels can reach it. This can expand the market share of Sukuk and, at the same time, increase the amount of Sukuk funding for economic development in Indonesia. In addition, the stipulation of criteria for sharia shares incorporated in JII should no longer focus solely on the amount of market capitalization. However, it should be more directed at corporations that contribute more to achieving inclusive economic development, namely those that can increase economic growth, reduce inequality and poverty, and expand access to opportunities for all levels of society in Indonesia without exception. However, information and studies that discuss Islamic stock-issuing corporations in the capital market and contributing to inclusive economic development are still limited. In practice in the field, this fact will create room for further discussion and study.

CONCLUSION

This study examines the contribution of Islamic non-bank financial institutions and capital markets to inclusive economic development in Indonesia between the years 2010 and 2020. The result of this study conceals that only the total outstanding Sukuk has a significant contribution to inclusive economic development in Indonesia. In contrast, the two instruments, namely JII market capitalization and total claim of Islamic insurance, have an insignificant contribution to inclusive economic development. Empirical evidence from the research shows that there are still very limited Islamic financial products contributing to Indonesia's inclusive economic development. With the largest market capitalization compared to other financial sectors, the capital market sector is insufficient to guarantee inclusive economic development. Therefore, the government, competent authorities, actors, and activists of the Islamic finance industry must start thinking about synergizing Islamic financial products from various sectors so that the benefits of these products can align with the goals of inclusive economic development.

In addition, further research in this area could also explore the implications of the insignificant and negative relationship between Islamic insurance markets to inclusive economic development in Indonesia. Sharia insurance products have an intermediary function as a provider of value protection products with mutual assistance (tabarru') contracts. If the Islamic capital market product aims to provide investment, Islamic insurance aims to protect the value of the customer's assets/goods or services. Therefore, it is necessary to diversify Islamic insurance products in synergy with Islamic capital market products in carrying out their functions to protect the value of investment assets for related stakeholders. Last but not least, the research that has been carried out has several limitations, including the availability of inclusive economic development index data, which is quite an obstacle for researchers to further describe the development of the index in the scale of coverage of each region in Indonesia which consists of 34 (thirty) four) provinces and understand their relationship to developing the Islamic finance industry in Indonesia.

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