

## ABSTRACT

In Indonesia, there is a critical gap between the widespread adoption of digital devices and the slow progress in financial inclusion. Despite the rapid increase in digital access, the corresponding rise in financial account ownership and the effective use of financial services has been limited. Existing research primarily focuses on access to digital financial products, such as mobile money and e-wallets, while overlooking the foundational role of digital device ownership and varying levels of digital engagement. This study addresses these gaps using SUSENAS data 2023, and a two-stage instrumental variable (IV) approach with strong instruments, including satellite data on Nighttime Light Intensity as a proxy for economic activities, the Infrastructure and Ecosystem Index, and the Empowerment Index. First-stage results confirm the relevance and strength of the instruments, showing consistently significant associations between the instruments and digital variables. In the second stage, digital involvement exhibits large, positive effects on financial outcomes. Mobile phone ownership alone increases financial account ownership by up to 192.3%, while active digital usage raises the likelihood of using financial services by 109.4%, even after accounting for control variables. These effects are notably higher than those obtained from Probit models, which are more susceptible to endogeneity bias. The findings highlight the transformative role of mobile phones in bridging the gap between marginalized populations and formal financial systems.