CHAPTER I

INTRODUCTION

1. Introduction

1.1 Problem Identification

Poverty is one of the various problems faced and must be handled appropriately by various countries in the world. Poverty is not only a problem for developing countries, developed countries also experience poverty problems. As a developing country, Indonesia also has complex poverty problems. Therefore, poverty alleviation efforts must be carried out in a comprehensive manner, covering various aspects of people's lives and carried out in an integrated manner. The poverty condition of a country or region is a reflection of the level of welfare of the population in that area (Leasiwal, 2013).

Poverty is one of the most fundamental economic problems currently being experienced by Indonesia. Poverty is a socio-economic condition of a person or group of people whose basic rights to maintain and develop a dignified life are not fulfilled (Law No. 24 of 2004). Poverty describes the condition of a group that does not have expertise so that no changes are created either in the ownership of production factors or adequate product quality so that they cannot benefit from the results of development (Arsyad, 2010). At present the constraints faced by the poor are low incomes which are only able to make ends meet, and do not have the ability in the financial sector to be able to access banking services.

The following is data on the percentage of poor people in Indonesia from 2011–2020.

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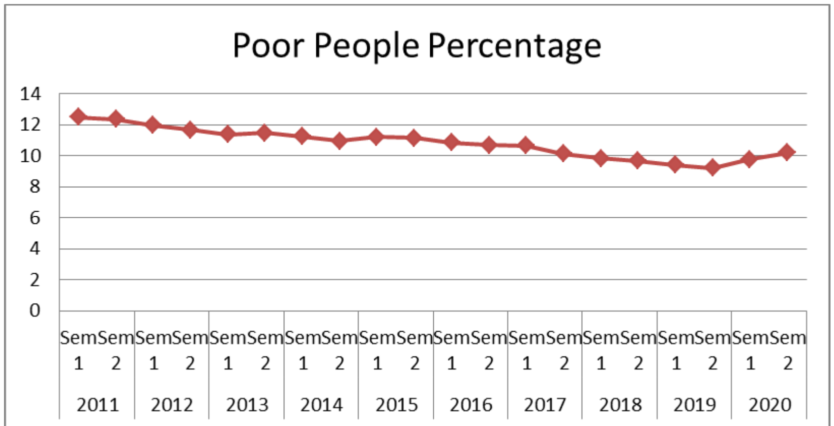
Figure 1.1

Percentage of Poor Population in Indonesia tahun 2011-2020



Source : Statistics Indonesia

Figure 1.3 shows the development of the percentage of poverty in Indonesia each year from 2011 to 2020. Based on the Statistic of Indonesia data above, the percentage of poor people in Indonesia is still large, but from year to year the percentage of poor people decreases. It can be seen in 2011 in semester 1 there was a decrease in the percentage of poverty in semester 1 in the following year. In 2020, the percentage of poor people in Indonesia has increased, where in 2019 the percentage of poor people in semester 1 was 9.41% and semester 2 was 9.22%, and increased in 2020 semester 1 to 9.78% and semester 2 to 10.19%. The highest percentage of poverty is in Papua Province at 26.80%.

At present, the constraints faced by the poor are low income which is only able to meet the needs of a standard of living, and the poor cannot access banking services to improve their living conditions. The difficulties experienced by the poor in accessing financial services cause people to only rely on limited savings to invest and live their lives. According to Bank Indonesia, the causes of low access to finance for the public in Indonesia are found in terms of providers of banking services, from the side of the community as users of banking services, product prices in banking are expensive and difficult in reaching out to the public, lack of information received, product barrier and channel barrier design. Ease of access to finance can enable a transaction to take place quickly so that the volume of financial transactions becomes larger and vice versa (Bank, Indonesia 2012).

Financial inclusion is a process that will ensure ease of access, availability, and benefits from the formal financial system for all economic actors (Sarma, 2012). According to Gerdeva and Rhyne (2011), financial inclusion is a condition where everyone can easily access quality and available financial services at affordable prices comfortably and satisfyingly. The calculation of the financial inclusion index has been developed by Sarma (2012) based on three dimensions, namely accessibility or penetration, availability, and usability which are considered to be able to build financial inclusion. The development of a banking sector can be seen from the physical infrastructure that is always increasing, one of which is the increase in the number of branch offices established in regions in Indonesia (Bank Indonesia 2012).

Table 1.1

Bank Branches Office and Composition of Third Party Funds of Commercial Bank Based on Location in Indonesia 2011-2020

Years	Bank Branches Office	Composition of Third Party-Funds (in Million Rp)
2011	3280	2,784,912
2012	3445	3,225,198
2013	3438	3,563,362
2014	3454	4,114,420
2015	3588	4,413,056
2016	3676	4,836,758
2017	3690	5,289,209
2018	3700	5,630,448
2019	3592	5,998,648
2020	3599	6,665,390

Source: Otoritas Jasa Keuangan (OJK)

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Based on the table above, it can be concluded that the number of branch offices established in regions spread across the provinces in Indonesia has fluctuated. In 2012 there were 165 additional branch offices and decreased in 2013, an increase from 2014 to 2018 to 3700 branch offices (SPI, 2019). In 2019 it decreased to 3592 branch offices and increased in 2020 to 3599 branch offices, where the most bank branch offices are located in DKI Jakarta Province, amounting to 467 branch offices.

An increase in the number of commercial bank branch offices will increase the amount of funds collected by the public, where these funds are called third party funds (DPK) which include demand deposits, savings and time deposits. Based on the table above, the composition of third party funds (DPK) in Indonesia tends to increase from 2011-2020. In 2011, the amount of third party funds in Indonesia was 2,784.912 billion rupiah and continued to increase until 2020 to 6,665,390 billion rupiah.

Economic growth is used to understand the dynamics of a region's economy by looking at its economic acceleration. This shows that an increase in economic growth indicates an increase in demand for goods and services, meaning that when people's needs for goods and services increase, indirectly by increasing economic growth they are able to reduce poverty which is always identified with the inability of the community to meet their needs. The process of the rate of economic growth can be seen through the rate of increase in Gross Domestic Product (GDP) and an area can be seen through the growth rate of Gross Regional Domestic Product (GRDP), where the level of GDP development is a measure of a country's success in creating economic development (Sukirno, 1981).

Based on data obtained from the Central Statistics Agency (BPS), the Gross Domestic Product (GDP) in Indonesia has increased and decreased. The following is per-capita GDP data in Indonesia from 2011 to 2020.

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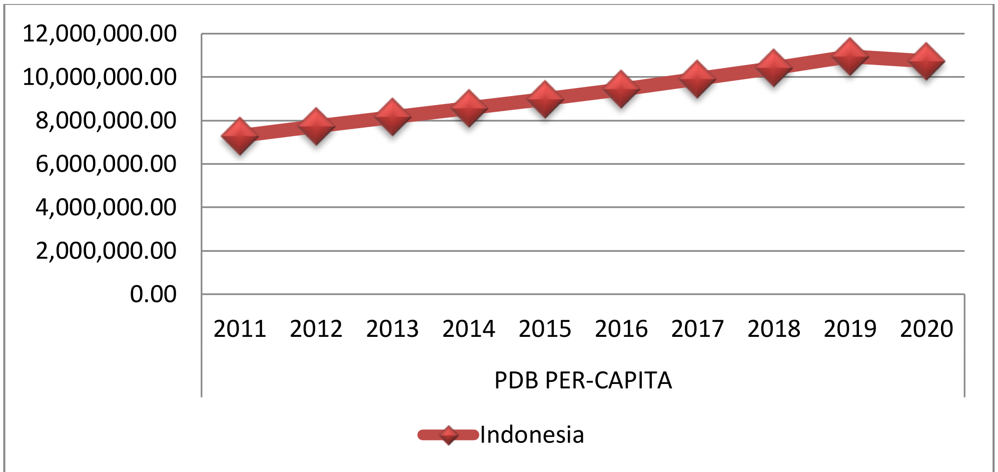
Figure 1.2

GDP Per-Capita Based on Constant Price in Indonesia 2011 – 2020



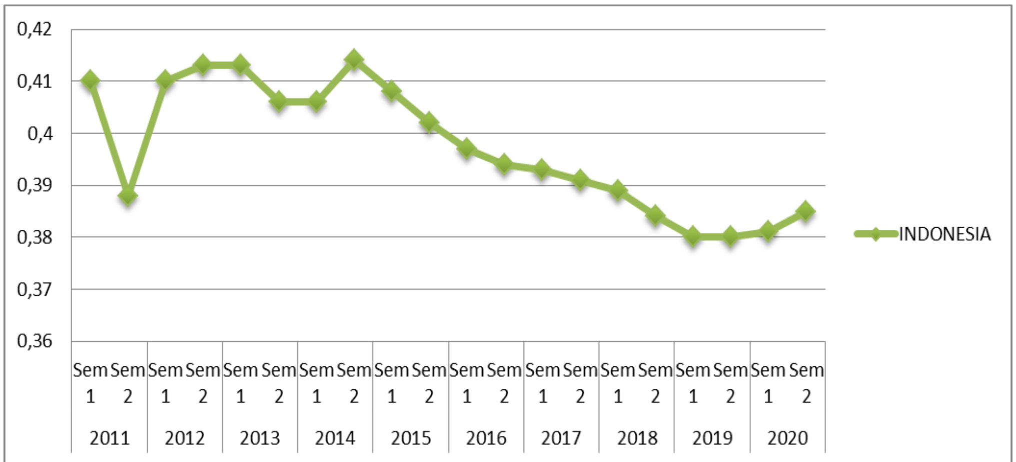
Source: Statistics Indonesia

Based on the graph above, it can be seen that Indonesia's Gross Domestic Product has increased and decreased. In 2011 to 2012 Indonesia's GDP increased from Rp. 7,287,635.30 to Rp. 7,727,083.40. Indonesia's GDP continued to increase until the following year and decreased from 2019 to 2020, from Rp. 10,949,155.40 to Rp. 10,723,054.80.

Nowadays, the obstacles faced by the poor are low incomes which are only able to meet the needs of living standards, and the poor do not have the ability to access banking services to improve their living conditions. The difficulty experienced by the poor in accessing financial services causes people to only rely on limited savings in investing and living their lives, so that income inequality does not decrease and economic growth slows (Allen et al, 2012). Income inequality is an economic problem where there is inequality of income for everyone in society. Inequality in the distribution of income in a region can be measured using the Gini index. The following is the Gini index data in Indonesia from 2011 to 2020.

Figure 1.3

Graph of Percentage of Gini Ratio in Indonesia 2011-2020



Source: Statistic of Indonesia

Based on graph 1.4 above, the Gini ratio in Indonesia fluctuates every year. In 2012 in semester 2 it increased to 0.413 and decreased in 2013 to 0.406. From 2014 to 2019 the Gini Ratio index in Indonesia decreased to 0.380, and increased in 2020 to 0.385.

Based on the phenomena or problems that occur as described above, the Dynamic System GMM Analysis approach is considered to be the most appropriate method for analyzing these problems. The Dynamic System GMM is used because is one of the econometric analysis models used to explore the relationship between the dependent variable and several independent variables. Using The Dynamic System GMM (*Method of Moments*) can produce an unbiased, consistent, and efficient estimator.

Based on the description above, the authors are interested in conducting research with the title "**POVERTY AND FINANCIAL INCLUSION: A DYNAMIC SYSTEM GMM ANALYSIS OF INDONESIA**".

1.2 Problem Statements

Based on the problem identification described above, the problem statements in this study are:

- Does Financial Inclusion affect the Poverty Level in Indonesia?
- Does Economic Growth affect the Poverty Level in Indonesia?
- Does Income Inequality affect the Poverty Level in Indonesia?

1.3 General Research Objectives

Based on problem statements above, the research objectives are:

- To find out the effect of Financial Inclusion on Poverty Levels in Indonesia
- To find out the effect of Economic Growth on Poverty Levels in Indonesia
- To find out the effect of Income Inequality on Poverty Levels in Indonesia