CHAPTER I

INTRODUCTION

1.1 Problem Identification

Poverty is a rooted thing in society, the cause of poverty is a big challenge for the government in advancing a country's economy. One of the benchmarks in the success of a country's development can be seen from the decline in the number of poor people. Indonesia is a developing country that has a population density of number 4 in the world after China, India, and the United States. With a large population, Indonesia is also not spared the issue. This is evidenced by the large number of poor people, the majority live in rural areas that are difficult to access.

Although they have struggled for decades to free themselves from poverty, the reality shows that Indonesia has not been able to escape from this bondage of poverty. Poverty causes millions of people to meet limited needs for food, clothing and shelter. Poverty also results in millions of children being unable to obtain their right to quality education, difficulties for the people to pay for health services, lack of savings and no investment, lack of access to public services, lack of employment opportunities, lack of social security and protection for families, and strengthening of migration flows to cities.

The percentage of poor people in Indonesia on March 2019 is 25.14 millions people CBS (2019). On September 2019, Central Bureau of Statistics West Sumatera released data that the total of people who is income per capita per month is under poverty 343.09 thousand (6.29%) decreased 5.13.000 compared on March 2019 which 248.22 thousand (6.42%). The percentage of poor people in city region on March 2019 4.76% decreased to 4.71%. Meanwhile the percentage of poor people on the countryside on March 2019 7.88% decreased to 7.69% on September 2019.

Based on the data from Central Bureau of Statistic of West Sumatera, the total of poverty is consist of 19 regions in West Sumatera from 2006-2010 decreased. In 2008-2009

decreased significantly. In 2010 the rate of poverty is increase 458.2 before in 2009 426.1 (in thousand people). The amount of decrease was 47.6 thousand of people and followed in the next year the poverty keep decreased until 2012.

Kotze (2004) stated that the poor have a relatively good ability to obtain resources through the available opportunities. Although external assistance is sometimes used, it is not guaranteed so that the community depends on outside support. This empowerment approach is considered unsuccessful because no community can live and develop if isolated from other community groups. This isolation creates a passive attitude, even the situation is getting poorer. Emil Salim (1997) categorized poverty into 5 characteristics: 1) Do not have their own production factors, 2) Do not have the possibility to obtain production assets by themselves, 3) The level of education is generally low, 4) Many of them do not have facilities, and 5) Among them are relatively young and do not have adequate skills or education.

In this table will explain the percentage of poverty by area of residence in West Sumatera. The area of residence in West Sumatera consists of rural and city. The percentage will be shown from 2010-2020.
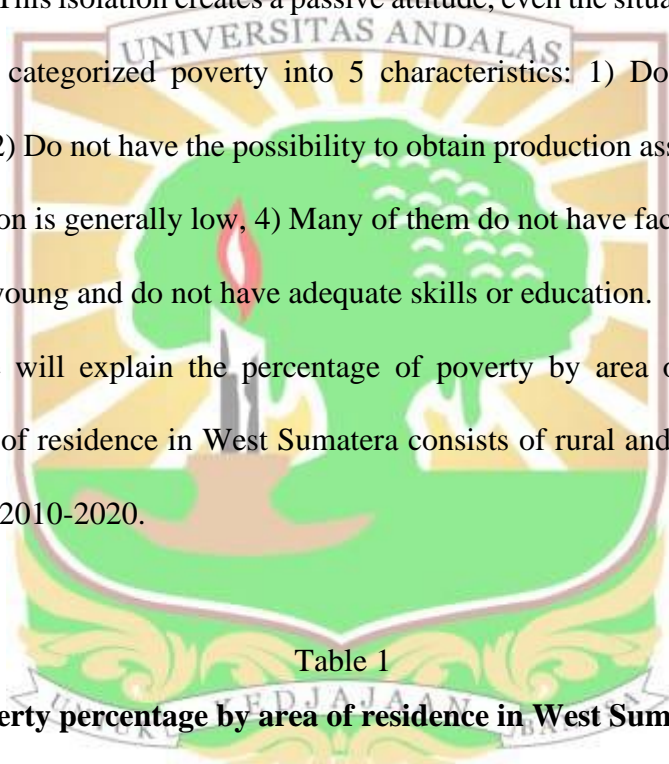
Table 1

The poverty percentage by area of residence in West Sumatra (2011-2020)

Poverty percentage by area of residence in West Sumatra (2011-2020)		
Year	City	Rural
2011	7.42	10.07
2012	6.67	9.14
2013	6.16	9.39
2014	5.43	8.68
2015	5.73	8.35
2016	5.54	8.16
2017	5.14	8.1
2018	4.86	8.07

2019	4.76	7.88
2020	4.97	7.43

From table above shows that the poverty percentage by area of residence in West Sumatera from 2011-2020 that decreased every year. The table above shows that the disparity in poverty levels between cities and rural is significant. The percentage of poverty differs by an average of 2.5% between urban and rural areas. In 2011, the rural had a poverty rate of 10.07 percent, while the city had a poverty rate of 7.42 percent with a total comparison of 2.65%.
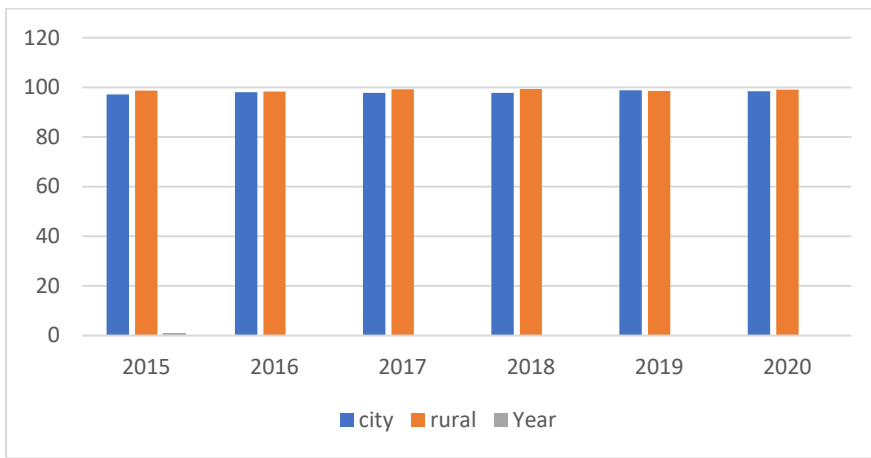
In 2015, the poverty percentage in city 5.73% and rural 8.35% with total comparison 2.62%. And in 2020, the poverty percentage on city increased 4.97% which one was before 4.76% in 2019, while the poverty percentage on rural decreased from 7.88% in 2019. Although the percentage of poverty in city and rural increases and decreases in different years, the percentage of poverty in West Sumatra city and rural is still not equal. It can be stated that there is a significant disparity in poverty levels based on place of residence.

According to Supriatna (1997), a population is said to be poor if it is characterized by low levels of education, work productivity, income, health and nutrition as well as their welfare which indicates a cycle of helplessness. According to Dowling and Valenzuela (2010), people become poor due to low human capital, such as education, training, or the ability to build. They also have very small amounts of physical capital. Furthermore, if they have good human and physical capital, they may not have the opportunity to work because of discrimination. The impact of poverty are (1) *crimes increases,* (2) *high mortality rate,* (3) *access to education is closed,* (4) *uneployment is increasing,* (5) *the emergence of conflict in the community.*

Following are some figures for the net enrollment rate in West Sumatra based on residence from 2015 to 2020.

Figure 1.1

The net enrollment rate of elementary school by place of residence and level of education in West Sumatra

Based on figure 1.1 the percentage net enrollment rate of elementary school by place of residence in West Sumatera tend to increase from 2015-2020. Where the net enrollment rate between rural and urban areas is not too far. The net enrollment rate for rural elementary schools is higher than the city. In 2020, the percentage of primary school net enrollment rates between cities around 98.47% and rural around 99.06% is almost the same.
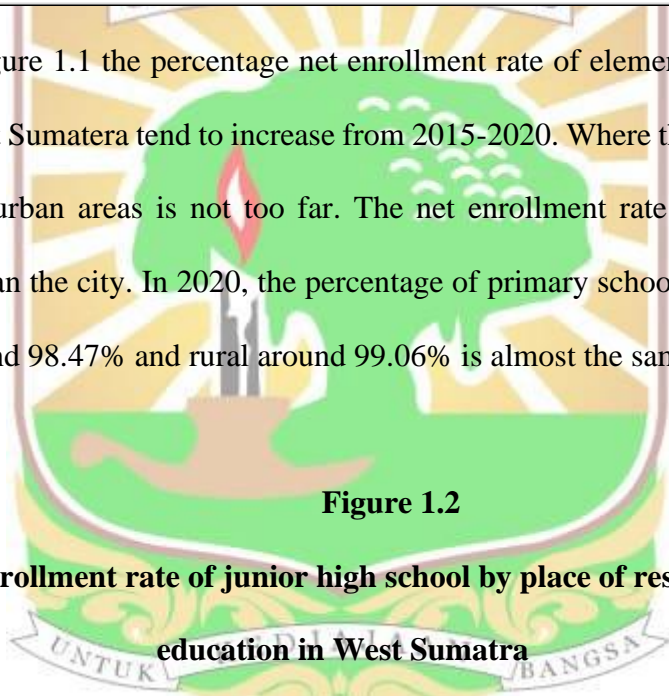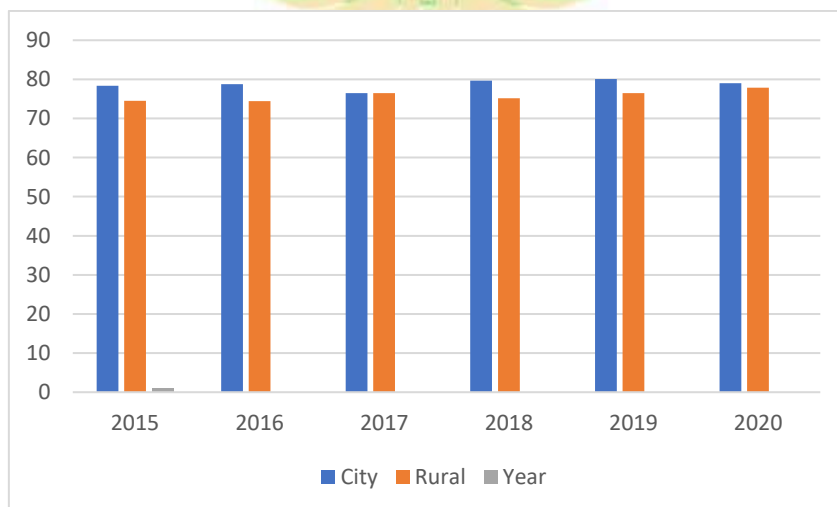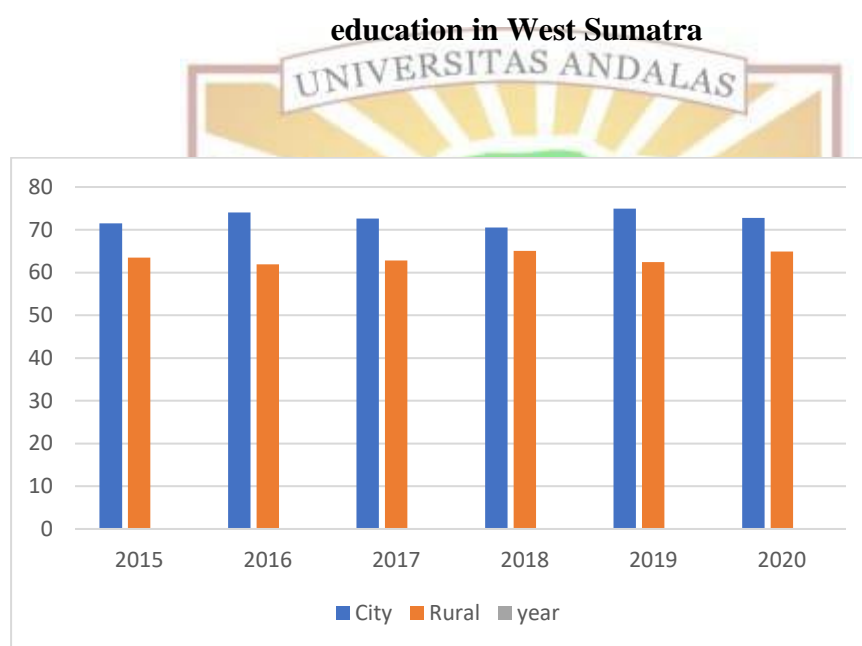
Figure 1.2

The net enrollment rate of junior high school by place of residence and level of education in West Sumatra

Based on figure 1.2 the percentage net enrollment rate of junior high school by place residence in West Sumatera from 2015-2020 tend to fluctuate every year. In this percentage, city is higher than rural. In 2015, the percentage of net enrollment rate of city around 78.37% and rural around 74.51%. The highest percentage of city and rural was in 2019. In 2019, the percentage of net enrollment rate of city was 80.1% and rural 76.5%.

Figure 1.3

The net enrollment rate of senior high school by place of residence and level of education in West Sumatra

From figure 1.3 the percentage net enrollment rate of senior high school in West Sumatera differs greatly between city and rural. The percentage of net enrollment rate of senior high school in city is tend to increase every year although in some year the percentage there has been decrease. The percentage of net enrollment rate of senior high school in rural is tend to fluctuate in some years. It can be conclude that there is a big difference of the percentage of net enrollment rate of senior high school between city and rural in West Sumatera.

From the data on Central Bureau of Statistic of West Sumatera 2010-2019. Each year, data from the mean years school around from 8 is collected. Mean years school in 2010 was 8.13 years. The time elapsed since 2011 is 8.2 years. The increase occurred in 2013 at 8.28

years. And the greatest increase occurred in 2019 at 8.92 years. This demonstrates that the mean years school in West Sumatra has increased year after year.

Data from Central Bureau of Statistic of West Sumatera net enrollment rate 2010-2019. The net enrollment rate is divided into three categories: elementary school, junior high school, and high school. Enrollment rates in primary schools fluctuate several times per year. It was 95.51 percent in 2010 and dropped to 93.47 percent the following year. The increase in 2012 and 2013 was 95.74 percent and 97.05 percent, respectively. and will continue to rise until it reaches 98.67 percent in 2019.

The net enrollment rate is lower than in primary school. The net enrollment rate in 2010 was 68.2 percent, decreased to 67.1 percent in 2011, and increased to 70.03 percent in 2012. The increase will continue until 2019, when it will be 78.1 percent. Senior high school has the lowest net enrollment rate when compared to the percentage. In 2010, the net enrollment rate was 55.06 percent, but it fell by 54.05 percent in 2011. Then, in 2012, it increased by 55.54 percent, and this trend continued until 2019, when it reached 68.53 percent. It is possible to conclude that the net enrollment rate in West Sumatra varies.

According to data from West Sumatra's Central Statistics Agency, expenditure per capita increased every year between 2010 and 2019. This is demonstrated by Rp. 9,339 per capita expenditure in 2010, which increased to Rp. 9,409 and Rp. 9,479 in 2011 and 2012, respectively, before reaching Rp. 10,925 in 2019. It is possible to conclude that per capita spending has risen year after year.

The literacy rate for those aged 15 and over is based on data from the West Sumatra Central Statistics Agency for the years 2008-2019. Literacy rate was 97 percent in 2008. The following year, 2009, the figure was 97.98 percent. This percentage will continue to rise until it reaches 99.61 percent in 2019. It is possible to conclude that the literacy rate has risen year after year.

From the data above can be conclude that poverty can be alleviated via education. When measured as a percentage of pure participation rates based on residency in West Sumatra, where there is a significant gap between cities and villages while the literacy rate and average length of schooling have risen year after year. Bloom et al (2006) that higher education can be beneficial to both the public and private sectors Individuals' private benefits are well established, and include better job prospects, higher salaries, and a greater ability to save and invest. These advantages may lead to better health and a higher quality of life.

West Sumatra's GDP per capita increased year after year between 2008 and 2010. The data published by the West Sumatra Central Statistics Agency demonstrate this. West Sumatra's GDP was 19,876.960 rupiah in 2008, According to the Central Statistics Agency. The following year, the value increased to 20,518.170 rupiah. The value of the rupiah increased to 21,584.910 rupiah in 2010.

Gross Domestic Product (GDP) is the total value of goods and services produced by a country in a certain period or in other words, the Gross Domestic Product is national income which is one of the benchmarks for economic growth within a country. Domestic product has a negative effect on levels poverty, increasing existing Domestic Products, shows the more productive the performance of the population in an area, the increasing productivity of the population causes income population increases, so that the population is able to make ends meet life, the necessities of life that are getting fulfilled lead to a level poverty is decreasing Boediono (1999)

Bourguignon (2004) shows that in the absence of distributional change, economic growth is necessary to reduce levels of absolute poverty. Where growth benefits everyone equally, this will lead to a reduction in absolute poverty levels. However, where the rewards from economic growth are skewed in favour of the already well-off, economic growth does not

lead to a reduction in levels of relative poverty. Therefore, the relationship between economic growth and relative income poverty is ambiguous.

This study can contribute and useful for:

1. Policy makers, it is hoped that this research can provide useful information in understanding the factors that influence poverty levels so that the factors that need to be spurred to overcome existing poverty problems can be identified.

2. The general public, it is hoped that this research can add to the repertoire of economic science, especially development economics. The special benefit for science is that it can complement the study of poverty levels by revealing empirically the factors that influence it

3. Students, it is hoped that this research can increase knowledge about the influence factors of economic growth, income inequality, and unemployment on poverty in West Sumatra, as well as a reference material for future researchers who are interested in poverty in West Sumatera.

1.2 Problem Statement

Poverty has always been a problem in several country including Indonesia. Poverty is still an important scourge that is hampering economic growth. Where Indonesia's poverty level is still quite high when compared to some surrounding countries.

Based on data that published from Central Bureau of Statistic of West Sumatera in 2011-2020, mean years school is increase every year. Net enrollment rate varies, it depends on its level. Overall net enrollment rate of West Sumatera is increasing every year. Expenditure per capita also increase every year. And the literacy rate is increasing every year. Economic growth data from 2011-2020 is fluctuating. Economic growth has influence to increase production, that can increase the national/regional income.

These factors can make decrease poverty in West Sumatera. For this reason, further research is needed on poverty and several factors that can affect poverty rates in West Sumatra, so it can be seen whether these factors affect poverty.

Based on the background described, what will be focused on in this study is:

1. How does mean years school influence poverty in West Sumatera?

2. How does economic growth influence poverty in West Sumatera?

3. How does expenditure per capita influence poverty in West Sumatera?

4. How does the literacy rate influence poverty in West Sumatera?

5. How does net enrollment rate influence poverty in West Sumatera?

1.3 General Research Objective

The purpose of this research is to analyze the influence of economic growth, mean years school, net enrolment rate, expenditure per capita and the literacy rate can positively or negatively towards poverty in West Sumatera from 2010-2020 by using dynamic panel data.

1.4 Structure of writing

This research divides into five chapter as follows:

Chapter I : Introduction

This chapter consist of research background, problem statement, general research objective, research advantage and structure of writing. In research background section will be explain the importance of the topic to be taken as well as some theories and empirical studies about the topic.

Chapter II: theoretical framework and literature reviews

In this chapter will be elaborate the theoretical basis of the research and elaborate previous research and description of hypothesis related to influence of economic growth, mean

years school, net school enrolment, expenditure per capita, and literacy rate to poverty in West Sumatera.

Chapter III: Research and methodology

In this chapter provides an explanation of research variables and operational definitions of variables, the type and source of data used in this study along with an explanation of data collection methods, and a description of the analytical method used.

Chapter IV: Discussion

In this chapter will be conducted regression analysis to see the influence of economic growth, mean years school, net school enrolment, expenditure per capita, and literacy rate to poverty in West Sumatera. This chapter will also conducted of statistical descriptions of research variables, and describe the result interpretation of the regression.

Chapter V: Conclusion

In this chapter is the final chapter of writing which consists of conclusion and a series of discussion of thesis in chapter V as well as policy implication that need to be delivered and future research.