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FOREWORD

This is a compilation of abstracts from the 'Malaysia-Indonesia Seminar on Public Administration 2008' held at the Faculty of Administrative Science and Policy Studies, Seremban Campus, Universiti Teknologi MARA, Negeri Sembilan on 23rd April 2018. There are 26 papers presented from the Faculty of Administrative Science and Policy Studies (FSPPP), UiTM, Malaysia and Faculty of Social and Political Science (FISIP), University of Airlangga, Indonesia.

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FINANCIAL INCLUSION OPTIMIZATION THROUGH FINANCIAL SERVICES TO REDUCE POVERTY IN INDONESIA

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ABSTRACT

Financial inclusion became a worldwide trend after the global crisis in 2008. Related to the SDGs, financial inclusion through widening the financial access is one way that can be implemented to achieve SDGs's first goal, end poverty in all it forms everywhere. This article using secondary data through literature review methods, and the objective of this article is to describe how the financial inclusion optimization through financial services to reduce poverty in Indonesia. The results are there are two approaches to increase the financial inclusiveness. theFirst approach is formulating a national strategy and the second approach is make separated financial inclusion programs. Indonesia government implement both of the approaches. They have a national strategy document (*Strategi Nasional Keuangan Inklusif*). Two of the most significant programs are digital financial services and branchless banking system named *Layanan Keuangan Tanpa Kantor Dalam Rangka Keuangan Inklusif*. The study finds that optimization of financial inclusion through financial services to reduce poverty in Indonesia has not accompanied yet by the optimization of financial literacy. This study suggests that the optimization of financial literacy and strengthening cooperation among the stakeholders are important.

Keywords

Sustainable Development Goals, financial inclusion, financial accessibility, financial services, poverty.

1. INTRODUCTION

Poverty and inequality phenomenon have been a global concern. Both of these classical problems seem to never cease to be discussed, especially for developing countries, including Indonesia. it explains why No Poverty becomes SDGs's number one goal. Amartya Sen stated that the cause of poverty, powerlessness and backwardness is lack of access. This limitation of access leads to limited choices for developing their potential. In the end a group of people are just doing what they have to do, not what they should be doing. Sen's intended accessibility is to facilitate political freedoms, economic and social opportunities (education, health, etc.), transparency, and the existence of social safety. One of sector which plays a significant role in current global era is financial. Optimizing existing resources needs to be done by the government to encourage people to get involved in economic development including in the financial sector. This can be realized if every part of society has access to utilize formal financial services in accordance with their needs and abilities to prosper. Efforts to improve community accessibility in the use of financial services are often referred to as financial inclusion. Inclusive financial policy is a deepening financial service targeting the bottom-middle class (in the bottom pyramid).

Financial inclusion term is emerging simultaneously with the awareness that the lives of the poor should be improved. It become an important global concern and become priority for policymakers in financial sector development as part of ensuring sustainable long-term economic growth. The terms of financial inclusion became a trend in 2008 after global economic crisis that plagued lower classes of societyIn 2009, UNDP together with some financial institutions made a projects aiming to increase financial inclusion for the poor by developing appropriate financial products and services, particularly for women. In the same year, G20 countries member agreed that increasing financial services accessibility is necessary, and in 2010 they formulated 9 innovative financial inclusion principals, they are leadership, diversity, innovation, protection, empowerment, cooperation, knowledge, proportionality, and framework. In 2015, World Bank estimates, approximately 2 billion people in the world don't use the formal financial services. Also, about 50% of the adults in the most deprived households are unbanked or underbanked. In 2016, ASEAN has created a 2016-2025 roadmap by defining 3 pillars in the financial sector, they are integrated finance, financial inclusion, and financial stability of each country. Financial inclusion is expected to be an instrument to achieve prosperity and make every part of the ASEAN community have equal access to financial services.

To understanding about financial inclusion there are some definitions of it. World Bank defines that financial inclusions is providing accesability to useful and affordable financial products and services both for individual and business. The Accesibility of financial products and services would ease the interest of both individual and business starts from making transactions, payments, saving, credit, and insurance. Meanwhile Asia Development Bank (ADB) defines that providing poor and low income households and their micro enterprises to access the financial services can be considered as the financial inclusion. While, United Nations stated that inclusive financial sector can be considered by the accessability to provide insurances, credit, payments, savings, for every people and enterprises that have a bank account. From these definitions, we can get somecorepoints in defining financial inclusion which is the accessibility, availability for both individual or business, and equal opportunity of access to financial services.

Financial inclusion and poverty reduction topic has been undertaken by several studies, as did Sarma and Pais in 2011 stating that there is a positive relationship between the level of human development and financial inclusion. Another studiy, Levine (1997) also stated that there is a positive relationship between the financial system and long-term economic growth. Sanjaya (2014) in his research produced results that financial inclusion through microcredit programs can improve the social or economic status of the poor. From these various studies, it can be concluded that financial inclusion has a significant impact on reducing poverty. With the financial inclusion where all part of society can access basic financial services, so that people can improve economic capacity and get out of poverty. This expansion of access also extends the level of participation of all levels of society in the economy.

2. RESEARCH METHODS

This article using secondary data through literature and documents review methods. Some different journals and also government websites have been used to describe financial inclusion in Indonesia. Based on the data, some possible reccomendations which could increase the optimization financial iclusion in Indonesia have been given. The objective of this article is to describe how the financial inclusion optimization through financial services to reduce poverty in Indonesia.

3. FINDINGS AND DISCUSSION

According to Financial Inclusion Index Survey by World Bank, in 2014 financial inclusion index in Indonesia is at 36%, meanwhile Thailand is at 78% and Malaysia is at 81%. This data shows that the Indonesia's financial inclusion index is low compared to other countries in ASEAN. Indonesia government targeting 75% in 2019 for the financial inclusion index.Based on several articles, we found that there are differences among Indonesia's index financial inclusion data in recent years. According to Indonesia financial literacy and inclusion survey by *OJK*, it shows that in 2016 the index of financial inclusion in Indonesia is at 67.82%. This number increased compared to 2013 which ammounted 59,74%. Meanwhile according to Bank Indonesia Supervision of Payment System Deputy Director, the index of financial inclusion in Indonesia reach 50 – 55 % in 2018. Some reasons behind the lack of financial accessibility are low levels of income, the complexity of the bank's operational arrangements, lack of financial and banking education, the high cost of bank administration, and also the banks location that tend to be far and inaccessible from community housing. Accessibility of financial services is one of the financial inclusive indicator. It means that accesibility plays important roles to implement the financial inclusion.Not only that, in March 2017 the number of poor people in Indonesia reached 27.77 million people or 10.64 percent of the total population in Indonesia. This number increased by 6.90 thousand population when compared to September 2016 which amounted to 27.76 million (Badan Pusat Statistik, 2017).

In Indonesia, the financial inclusion optimization implemented by formulating the national strategy of inclusive finance or SNKI (*Strategi Nasional Keuangan Inklusif*). As a document, this strategy used for the stakeholers guideline to optimize the national financial inclusion. On the ASEAN Summit 2011, Indonesia's president stated his commitment to implementing inclusive finance to having a National Strategy for Inclusive Finance. In 2012 government started to formulate the national strategy for inclusive finance document. The SNKI document includes vision, mission, goals, and inclusive financial policies to encourage economic growth, accelerate poverty alleviation, reduce inter-individual and inter-regional inequality. There are 4 points in the inclusive financial policy of the National Strategy of Inclusion Finance (SNKI), they are pillars and foundations, inclusive financial targets and indicators, coordination between ministries or institutions, and inclusive financial action.

Overall, there are some important findings that become the issue of optimizing financial inclusion through financial service to reduce poverty in Indonesia. These issues lead to the main question,how inclusive this financial inclusion policy is. According to a survey conducted by one of the international consulting agencies of inclusive finance, Microsave, there are only two banks which dominate these programs until September 2017. The first bank is Bank Rakyat Indonesia (BRI) controls the account market by 51%, and the second bank is Bank Tabungan Pensiunan Nasional (BTPN) controls 29%. This indicates that there is a limited number of agents. The increasing number of agents based on data still dominated by these banks. The next problem is the location of the agent is still relatively close to the location of the bank, and it turns out that 90% of the community who use these services already has a bank account before (LPEM FEB UI, 2017). It can be concluded that these programs are not inclusive enough because they have not reached the unbanked community. Both of these problems lead to the bigger problem. The bigger problem is the government of Indonesia see between financial inclusion and financial literacy as the separated thing. They do not see both of them as a one unified body. The optimization of financial inclusion has not been accompanied by the optimization of financial literacy for the community. According to national literacy and financial inclusion survey by *OJK* in 2016, the financial literacy index was only at 29,66%. Meanwhile, the financial inclusion index was at 67,82%.

With apopulation over 260 million, Indonesia becomes the fourth country with the largest population in the world. Indonesia has 34 provinces, and it divided into 514 regions with over 74 thousand village, it becomes the main challenge for Indonesia government to promote the financial inclusion as one way to reduce poverty in achieving one of SDGs goals, end poverty in all it forms everywhere.

4. CONCLUSION

Financial inclusion optimization in Indonesia is done through the widening financial access for the community. This optimization can be proven by the increasing of Indonesia's inclusive financial index from 59,74% in 2013 to 67,82% in 2016, conversely financial literacy index was only at 29,66% (Survey OJK, 2016). It can be suggested that the government must formulate and implement several financial literacy programs, such as give periodically socialization particularly in the rural area. After that, doing supervision is also necessary. Supervision can help to maintain the sustainability of the programs. Other than that, the government need to strengthening cooperation among the stakeholders in order to decrease the number of poor and to achieve SDGs number one goal, end poverty in all it forms everywhere.

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